REPORT

OF THE COMMITTEE OF DIRECTION

VOLUME II

THE GENERAL REPORT

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PRICE RUPEES FIVE

ALL-INDIA RURAL CREDIT SURVEY

REPORT OF THE COMMITTEE OF DIRECTION

VOLUME II

THE GENERAL REPORT

BOMBAY
1945

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I. BACKGROUND

CHAPTER 1

INTRODUCTION

Introductory

THE Report of the Committee of Direction of the All-India Rural Credit Survey is presented in three volumes which in themselves may be regarded as separate, but complementary, reports. The first is the Survey Report; the second, the General Report; and the third, the Technical Report. This is Volume II or the General Report. It contains the Committee's recommendations and an analysis of the data on which they are based. The data are drawn principally of course from the Survey, but in part from other sources as well. Among such sources are reports of different committees, official documents of various kinds, and numerous non-official publications, which contain material relevant to the formulation of policy; there has been especial need to turn to these for facts and observations bearing on aspects not covered by the specific investigations of the Survey. Of the data of the Survey as a whole, no attempt at summary is made in this volume; for the presentation and interpretation of these in their entirety, the reader must turn to the Survey Report (Volume I) to which, as we have stated, this volume is complementary.

By way of introduction, we propose in this chapter: firstly to recapitulate the general background of the Survey, including the terms, scope and nature of the enquiry, and secondly to give some explanation of the structure of the volume, the arrangement of the theme and the sense in which certain terms are used which often recur in the volume.

I. BACKGROUND

Previous committees of enquiry

2. It is only natural that it should be felt from time to time that all is not well with rural credit in India, and that this feeling should reflect itself in the appointment of committees of enquiry. From that point of view, the background of the present enquiry, as of several previous ones, may be said to extend to more than half a century; and the first enquiry that comes to mind is that of Sir Frederick Nicholson whose famous Report of 1895 led to the creation of co-operative credit societies in different parts of India, as a policy and programme of the Government, and subsequently to the wider establishment of the co-operative movement in India. Apart from the more chronic features of the problem of rural credit which tend to assume a familiarity that no longer disturbs, changes in aspect at times occur which demand fresh attention from the authorities. This often happens after some years of unusually low or unusually high prices. It is then thought that the conditions in which rural credit operates may have so changed since they were last examined that perhaps another assessment of the situation has become due. It is on the whole infrequent to recognize need of enquiry in anticipation of a change in the conditions. Somewhat as an exception

to this, however, in August 1943 the Reserve Bank of India addressed all the State Governments in the following terms:

" We observe that the problem of rural indebtedness which, along with a few others, had practically monopolized Government and public attention and evoked considerable legislative activity during the last depression, appears to have been relegated to the background almost to the point of being forgotten with the easing of the situation brought about by the recent rise in prices. When the conditions assume normality, debtors' difficulties will begin to show themselves and should there be another depression they will be accentuated once again unless the future is anticipated now and timely and suitable action taken. . . .

" . . . under the conditions created by the war, agricultural incomes must have considerably increased and the burden of debt become much lighter . . . The present, therefore, seems to us to offer unique opportunities for a positive action . . . for tackling the problem which, if exploited to the full, might ward off the resurgence in the post-war period of many of the debtors' difficulties. . . .

" We suggest that while planning action, Government make sure of their ground by having sample enquiries conducted rapidly in typical areas with a view to finding out the extent of indebtedness on the eve of the war; how it has been affected by subsequent developments; how agriculturists and moneylenders have reacted to them; what are the tendencies at work for and against the utilization of incomes for the liquidation of old debts, etc. . . . "

The need for State Governments to conduct surveys of rural indebtedness on the lines suggested by the Reserve Bank was later, in February 1944, reiterated to each of them by the Government of India. Some of the States took action. We have benefited by the reports of their committees.

Among all-India committees whose reports are of special relevance to the subject of our enquiry are the Agricultural Finance Sub-Committee (1945) and the Co-operative Planning Committee (1946). To the more important of their recommendations, in so far as these are germane to the present task, we advert in some of the chapters which follow.

Mention has also to be made of the Rural Banking Enquiry Committee which, in 1949, was appointed by the Government of India at the instance of the Reserve Bank. The Committee's terms of reference were fairly comprehensive. Besides measures for increasing the banking facilities in rural areas, but in connexion with them, the Committee was asked to enquire into arrangements for the conduct of cash work in Government treasuries, and to pursue this examination, not only for the older States of 'British India', but also for the several new States which had come into the picture of independent India. We shall, later in this volume, have more than one occasion to consider in detail that Committee's recommendations. Meanwhile, as part of the background with which we are here concerned, it will suffice to note that the Committee envisaged much larger accommodation from the Reserve Bank to the co-operatives. Along with the larger accommodation, they in effect added, the co-operatives might take a little more advice from the Reserve Bank.

3. The Reserve Bank, for its part, took up the point about larger accommodation to co-operatives quite seriously. In February 1951 it convened an Informal Conference of certain co-operators, economists and others, including the Registrars of some of the States, for the purpose of their helping it to define concretely to itself the policy changes, procedural reforms and other steps necessary for enlarging the volume of agricultural finance that passed from the Bank to the cultivator through the co-operative credit system. The Conference made several recommendations to which we shall refer at the appropriate places. All the short-range or procedural recommendations were duly carried out by the Reserve Bank. But of special interest here is what the Conference said about long-range policies. It pointed out how the formulation of such policies had been handicapped on account of the sparseness of factual information on the credit needs and borrowing practices of rural families and on the working of credit agencies in different parts of the country. The Conference, therefore, went on to recommend that the Reserve Bank should undertake a Rural Credit Survey " which should include all strata of the rural population and cover problems of capital formation in the rural areas as well as the credit requirements of both economic and indigent farmers". It suggested that a small expert committee might be appointed to design and advise on the details of the Survey. The recommendation was accepted by the Central Board of the Reserve Bank; and this Committee was appointed by Shri B. Rama Rau, the Governor of the Reserve Bank of India, in August 1951 for the purpose not merely of designing a survey in the requisite detail, but also of organizing and conducting it on an all-India basis. Our terms of reference were broad and simple: " (a) to direct the planning, organization and supervision of the Survey (b) to interpret its results and (c) to make recommendations".

Present Survey: terms of reference

4. It is necessary to refer here to the clarification subsequently made by the Governor of the Reserve Bank regarding the scope and nature of the enquiry as viewed against the background of the policies and programmes which the Reserve Bank had meanwhile commenced pursuing in the sphere of agricultural credit. The following extract is taken from a communication of the Governor to the Government of India, a copy of which was made available to us:

Scope and nature of Survey

> " The issues [with which the Committee is concerned] and, therefore, the data on which they must be decided are economic and administrative and not just statistical; and they have arisen . . . directly out of the recent efforts to reorient the policies and activities of the Reserve Bank in the sphere of rural credit in response to reiterated demands in Parliament and elsewhere that a more constructive role should be adopted by the Reserve Bank in this context. The programme accordingly drawn up [by the Reserve Bank] is threefold. Firstly, there are certain steps which can be taken forthwith, that is to say, without having to await either long-term policy or far-reaching organizational development. Many of the measures recommended by the Informal Conference are of this kind and . . . several of them have already been implemented, while others—especially those which involve legislative amendments—await action by the Government of India. The apex and central banks of Madras, Bombay and other co-operatively well-developed States have already derived considerable advantage from the procedural reforms recently effected in pursuance of the

recommendations of the Informal Conference. Secondly, there are other important measures which, while not needing to await long-term policy, are at the same time dependent on organizational development and reform, such as the setting up of apex banks where they do not exist, strengthening of the intermediate and primary credit structure of the co-operative movement in particular States and arrangements for the training of the personnel of both co-operative departments and co-operative banks. The problems of individual States are being studied by the Agricultural Credit Department; several Part B States have been visited by the Executive Director and his officers in this connexion and other States are to be visited in rotation. It is my hope that, in the next few months, the main outline of a programme of development of the co-operative credit structure will, in its essential features, be settled for each of these States, in consultation with their Governments, and that steps for implementing the programme will thereafter be reviewed by the Reserve Bank from time to time. The Standing Advisory Committee, which has been recently established, will assist in this review and also make suggestions suited to local conditions. Thirdly, there is the question of the long-term policies of the Reserve Bank in the sphere of rural credit. This is integrally connected with the series of steps I have already mentioned, and the Committee of Direction is concerned with the collection of only such data as will enable it to recommend practicable policies for the future. I have conceived it as a very small committee so constituted as to provide for both administrative and expert guidance, with provision for the requisite liaison with the machinery of the Reserve Bank including its Research Department as well as with the Standing Advisory Committee which includes the members of the Committee of Direction. The terms of reference of the Committee are accordingly much wider than would be appropriate in connexion with a merely statistical investigation."

It was in the light of considerations such as these that the Committee drew up its General Questionnaire on Agricultural Credit (included as an appendix to this volume) and its schedules and special questionnaires on the 'demand' and 'supply' sides of credit; selected the regions, villages, etc., to be surveyed; organized and trained the supervisory, inspecting and investigating staff and made the other arrangements requisite for the conduct of the Survey. The main features of the design and organization of the Survey and of the steps taken at various stages of its execution are mentioned in the Survey Report. As stated therein, after completion of the tabulation and analysis of the vast amount of data collected through the Survey, preliminary 'district reports' were arranged to be drafted. This work was largely entrusted to the research officers of the Bank and, to some extent, to officers loaned by State Governments, but in either case as far as possible to those who had been in actual charge of the Survey and its field operations. We make certain recommendations in Chapter 43 in regard to a programme for the editing and publication of some of these district reports. We also there recommend that the large amount of material available, not all of which of course appears in these volumes or will appear in the district reports, might be put to use by the Reserve Bank in different ways, including the publication of parts of it for the benefit of State Governments, co-operative organizations, universities, research institutes, etc., and indeed of all those who may share what we hope will be a growing interest in the study of the many problems of the rural economy of India.

II. STRUCTURE, ARRANGEMENT OF THEME, AND EXPLANATION OF CERTAIN TERMS

Division into sections

5. This volume is divided into ten broad sections. Section I presents in detail the background against which Section II briefly defines the problem. Sections III to VI scan the features of existing agencies of credit for taking note of any promise of solution those may reveal. Section VII outlines, Section VIII propounds, and Section IX elaborates, the solution. Section X ventures to step outside the terms of reference to have a look at some of the larger implications of both problem and solution.

Rural India

6. We start in Chapter 2 with India, or rather with India in relation to that aspect of it which is Rural India; and pass on in Chapter 3 to that aspect of Rural India which is the cultivator. The object of these two chapters is to recall, by means of statistics, that India is essentially Rural India, and that Rural India is virtually the cultivator; or, if the last term may be enlarged, that Rural India is virtually the cultivator, the village handicraftsman and the agricultural labourer. It seems necessary to remind oneself of this central fact which governs the whole problem with which this enquiry is concerned, because it is something which is often forgotten in the workaday preoccupations of men and institutions and Governments. We refer to the habits, attitudes and modes of thought of the generality of those in towns and cities, whose upbringing and personal strivings, the pattern of which can perhaps be traced back at least a century, would seem, on reflection, to take them farther and farther away from the heart of India.

The cultivator

7. The point may here be emphasized that, for an understanding of rural credit as it operates in India, it will be misleading to group together all those who own or cultivate a piece of land—whether this be big or not so big, and whether it be medium or small—and put all of them together as the 'cultivator'. It is necessary to divide and classify. Avoiding the more complex types of division and classification, valid enough in their own context, but difficult to utilize in an India-wide enquiry, we arranged to list the cultivators of each of the 'selected' villages, at the time it was surveyed, in the descending order of the area of the land they cultivated. Each list was then made into ten equal divisions of the number of cultivators. This division is of vital importance for an understanding of what follows in the Report. It is particularly so when problems are stated or solutions suggested. For, both actual problem and proffered solution must be considered in relation to the widely separated points which the cultivator occupies in the economic scale, as judged (in this instance) by the size of the holding cultivated. Accordingly, we propose to adopt a few simple terms of classification and then use these terms with the same connotation throughout this Report. The cultivator at the very top, he who covers the first tenth in the list, we will call the 'big cultivator'. We will then put him together with the next two 'deciles'—the statistical term for the divisions—take the average of this group of the top three deciles, and call the person whom the average may be supposed broadly to represent the 'large cultivator'. We will put the next four deciles together. These will then form the largest single one among the groups. Further, the group so formed will occupy the middle of the scale, since it leaves out 30 per cent

above and 30 per cent below. We will call this group, with reference to its average, the 'medium cultivator'. In many ways, the cultivator whom this group represents has special claims on our attention. He is at the very centre of rural production. He numbers two-fifths of all the cultivators. He is in charge of nearly one-third of the total cultivation. He is not so big as to present only the lesser aspects of the problem, nor so small as to grade off into the supplementary capacities of artisan, cartman or labourer. For, the smaller the cultivator, the greater the need for him to seek, in addition to cultivation, one or more of the other occupations which the village may be able to offer him. In the last three divisions, grouped together and averaged, we reach what we call the 'small cultivator', who in order to supplement the meagre income from his farm has perforce to pursue one or more subsidiary callings; often, he combines in himself the capacities of both cultivator and agricultural labourer. It is our intention, throughout this Report, wherever the data are in a form to enable us to do so, to pay special heed to those aspects of the problem which are of importance from the point of view of the medium cultivator. That does not mean that we shall not take the small cultivator into account, either along with or (as appropriate) separately from the medium cultivator. Nor does it mean that we shall lose sight of those who are 'big' or 'large'. They are 'big' or 'large' in a very relative sense, a sense internal to the Indian village. For, in contrast with the greater possessions and stronger forces outside, the Indian cultivator as a whole is neither big nor large nor powerful.

Aspects of background

8. It is necessary to be clear that the problems which arise, even if merely of credit, are not just sub-divisions of one single question: What will benefit the cultivator? If something is to be done to him, much is also expected of him. What then, to proceed to a very important item, does the National Plan require of the cultivator? Much more food is to be produced by him, besides more cotton and jute and other cash crops. What are the additional quantities of each of these proposed to be grown? In which of the different ways available, such as better techniques of production, better implements, better seeds and fertilizers, more extensive irrigation, major or minor, are the larger crops to be produced? Some of the means of increased production the State will provide, but a number of other things to be procured or done, the cultivator will have to find for himself or do for himself before more production can result. Thus the Plan figures as an important item in Chapter 2. Only the main points of course are there set out. Elaboration will be found in some of the subsequent chapters.

If, on the part of those who lend, their responsiveness, efficiency and resources, or the lack of all or any of these, are important, as they undoubtedly are, then the actual operations of the lenders must reflect the presence or lack of these factors. It is of obvious importance to study how they operate; and, from the point of view of significance for future policy, this importance is particularly great in respect of the co-operative movement in its aspect of provider of agricultural and other rural credit. Hence 'glimpses' of some typical instances of the operation of the co-operative agency are given in Chapter 4.

Responsiveness is related to attitudes. Thus a business-like way of looking at creditworthiness, while of course very valid and necessary, may sometimes on analysis turn out to be merely an unsympathetic way of looking at the borrower; it may even be the other way round and prove to be a specially favourable way of looking at the borrower.

It is, therefore, necessary to know something, if we can, of the attitudes of the lenders towards those who need to borrow. Quite often, the psychological aspect of the creditor-borrower relationship is conditioned by sociological factors; and to these we must draw pointed attention as among the most relevant of the considerations involved. But the special data of our enquiry are statistical and not sociological. Accordingly, we have culled from different sources and put together in Chapter 5 instances and observations which we trust will serve as revealing sidelights on the sociological picture. The selection by no means exhausts the features which require to be, and might have been, illustrated; nor does it, in the sociological context of rural credit, claim to represent a sufficiently comprehensive series of cross-sections for the whole of India. In Chapter 5, our object is no more than to focus thought and attention on this neglected aspect of the background of rural credit, and to explain later how it assumes great importance at every stage of examination of the subject. Most of the instances and extracts are from fairly recent publications; some are from replies received in response to our Questionnaire, and a few are from other sources including material collected in and for the Survey.

The rest of Section I is designed to cover other important aspects of the background of credit. Chapters 6, 7 and 8 depict the economic background. The first two relate to activities directly connected with agriculture, viz., production, communications, transport and storage (Chapter 6), and processing and marketing (Chapter 7). Other economic activities of the country-side, divided into those ancillary to agriculture (e.g., animal husbandry) and those coming within the description of cottage industries, are dealt with in Chapter 8. Chapter 9 outlines briefly the legislative background of rural credit. We have called Chapter 10 the 'Background of Opinion'. It summarizes some of the more important views currently held in regard to different aspects of the problem of rural credit in India, and the different ways in which, according to different people and different 'schools of thought', those problems should be approached and solved.

Statement of problem

9. In Section II is attempted a statement of the issues with which we are concerned. Chapter 11 starts with a general analysis of the problem of agricultural credit, especially of those aspects of it which distinguish the agricultural industry from other industries; this analysis is then applied to Indian conditions and the main elements of the problem are set out as they appear to us with reference to those conditions. The elements of the problem are then related, in Chapter 12, to the more important objectives which may be derived from the Constitution of India or the Five Year Plan or, at other levels of consideration, to the several concrete needs, purposes and objects which have to be kept in view. Two important points are the utilization of the loan for productive purposes by the borrower and the degree of insistence, if any, of the lender that such purposes shall be carried out. Connected with the latter is the desired end of administration which is implementation, and, therefore, the means which administration possesses to ensure that purposes are fulfilled, and, arising from this, the quality and efficiency of the means thus available. From matters such as these we pass on, in Chapter 13, to an analysis of those characteristics which may be postulated as required in an appropriate agency or agencies of agricultural credit and of the conditions necessary for the proper co-ordination of different agencies. One consideration emphasized is that, in the Indian setting, an important requirement that remains to be fulfilled, whether the creditor be a bank or a co-operative institution or Government itself, is that what is

lent does not confine itself to the upper layer of producers, but percolates lower down to those on whom depends a large part of the increased production of food envisaged by the National Plan.

Performance of existing agencies

10. Then follow Sections III, IV, V and VI which are devoted to a study of the existing agencies of credit and the record and manner of their operations, in so far as these relate to finance for agriculture, in the light of the objectives and requirements defined in the preceding section. The agencies are broadly divisible into two classes, the State and the non-State. The latter may in different degrees be controlled by the State, but are not otherwise associated with it; while the former, along with the Governments themselves, Central and State, include institutions which are in different degrees associated with the State and its policies. Important among the non-State or private agencies are the two different groups classified as 'moneylenders, traders and indigenous bankers' in Chapter 14 and 'commercial banks' in Chapter 15. The moneylender, whose predominant position in rural India has been well known and is amply confirmed by the Survey, is considered in detail; though it has to be mentioned that data regarding him, and especially from him, have been difficult to obtain in the course of the Survey. This of course was as might have been expected. The banking superstructure as a whole, both in its relation to rural credit and as it concerns the moneylender, trader and commercial bank, forms the subject of Chapter 16. There are certain banks which on the one hand are properly classifiable as commercial banks, but on the other can also be regarded as associated with the State and its policies, such association often going back to the very origin and establishment of these banks. Accordingly, the Imperial Bank and certain banking institutions which we have called the 'State-associated banks' come in for notice in Chapter 15, along with the other commercial banks; but they figure again, this time more significantly and by themselves, in Chapter 24, at the end of the account of the different agencies. The other State, semi-State and State-associated institutions which form the subject of this examination are first of all the Governments themselves (Chapter 17), then the co-operative agency (Chapters 18 to 22) and lastly the Reserve Bank (Chapter 23).

Poor record of co-operative credit

11. Perhaps the most startling revelation of the Survey has been the utter insignificance of the volume of credit supplied to the cultivator by the co-operative movement, if what he borrows from co-operatives is looked at in relation to his total borrowings from all sources. Co-operative agricultural credit, it has been shown by the Survey and amply confirmed by other material, is in quantitative terms little more than 3 per cent of the borrowings of the cultivator. That or worse is the position in many States. Nor is that all; for what reaches the medium and small cultivator from the co-operative institutions is a mere fraction of the little that co-operatives provide. For a situation such as this, fifty years after the establishment of co-operative societies in India, there must obviously be important causes which require investigation. Such an investigation is crucial to the whole purpose of our Survey and the object of this Report. Accordingly, an examination of what we have unhesitatingly called the 'failure' of the co-operative credit agency is made in Chapters 20, 21 and 22. In Chapter 20 are mentioned some of the drawbacks which are usually cited in explanation of the inadequate success of co-operative credit institutions in India. Chapter 21 deals in some detail with what we regard as the deeper reasons which

underlie the poor performance of the co-operative credit movement in this country. We arrive at the conclusion that the more important factors are associated with fundamental socio-economic causes; to isolate and analyse these causes is of even more than ordinary importance for our purposes, since it also happens to be part of our findings that no plan of development of agricultural credit for India can be organized on other than a co-operative basis at the primary stage, that is to say, in the village itself. A brief exposition of the socio-economic considerations involved is accordingly attempted in Chapter 22; the analysis there outlined is in many ways basic to our further treatment of the subject, including formulation of possible lines of solution.

Three main lines of future development

12. The desirable directions of future policy form the subject of Section VII. In that context, the private credit agencies are first summed up (Chapter 25) and shown to have little contribution to make to a constructive programme of agricultural credit. Three main lines of development are then formulated: (1) the development of co-operative credit; (2) the development of storage and warehousing on the one hand and of co-operative economic activity, especially marketing and processing, on the other, and (3) the development of facilities for rural and co-operative banking. The policies to be followed, the measures to be taken, and the agencies, existing or new, to be utilized for the purpose make up the theme of Chapters 26, 27 and 28. The lines thus formulated are then tested against objections which may be raised or alternatives which may be mooted. The objections and alternatives are considered in Chapter 29. The conclusion is reached that the solution actually offered is one which takes into account all that is valid in the objections and, while incorporating all that is good in the alternatives, is likely to be more successful than any of them, singly or in combination, in meeting those needs and fulfilling those objectives which must have the highest priority in the Indian situation.

Integrated Scheme of Rural Credit

13. Thereafter Section VIII sets out our main proposals in the form of an Integrated Scheme of Rural Credit. The basic considerations underlying them, the main features presented by them and the principal recommendations concerning them are given in Chapters 30, 31 and 32 respectively.

Detailed recommendations

14. Section IX contains a detailed elaboration of the principal recommendations, together with the suggestions which in some instances we put forward as not specifically belonging to the category of recommendations. In turn are taken up the institutions, existing or new, which figure in the integrated scheme, as also the other agencies whose place *vis-a-vis* the integrated scheme is defined as outside it but supplementary to it. Also included in this section are other important topics such as rural savings (Chapter 42), follow-up, publicity, review and research (Chapter 43), and a residual category of items (Chapter 44) significantly related to, but not within the concrete scope of, our enquiry. Chapter 33 deals with the Reserve Bank of India. In that chapter, as well as in Chapter 43, we make somewhat detailed proposals for the future reorganization of those departments of the Bank which are likely to be concerned with the carrying out of some of our more important recommendations. We have considered it appropriate to do so, partly

because of the acquaintance which, during the course of our enquiries, we have gained with the actual working of these departments, and largely because of the importance which we attach to the role of the Reserve Bank of India in the co-ordinated plan of development we have suggested. Chapter 34 contains our proposals regarding the 'State Bank of India', and Chapter 35 our recommendations concerning the 'National Co-operative Development and Warehousing Board', two new institutions whose establishment is an indispensable part of the integrated scheme as we conceive it. To those who may be inclined to question either the relevance to our enquiry of the proposal that a State Bank of India should be established, or the validity on merits of the proposal itself, we would recommend perusal in succession of Chapter 16 ('Rural Credit and the Superstructure of Banking'), Chapter 24 ('Record of the Imperial Bank and other State-associated Banks'), Chapter 28 ('Development of Rural and Co-operative Banking Facilities') and Chapter 34 itself which is explanatory not only of the manner of establishment, but also of the object of formation, of the State Bank of India. The future lines of development of the co-operative agency are given special attention in three separate chapters, viz., Chapters 36, 37 and 38; and the important question of training the needed type of personnel is dealt with in Chapter 39.

Broader implications of analysis

15. In the three concluding chapters grouped under Section X is briefly set forth our view of the broader and larger implications of the analysis we present and the solution we offer in the main part of the Report. These chapters have seemed to us both necessary and desirable, though their inclusion is not by strict dictation of the terms of reference.

Use of term 'solution'

16. There are one or two matters which it may be as well to clarify before we conclude this chapter. Our use of the word 'solution', in connexion for example with the scheme which is formulated in this volume, implies no claim except to the brevity and convenience of the use itself. But, as pertinent to the same context, one or two observations may be added. We have, in the course of our enquiry, found rural credit to be an extraordinary complex of needs, purposes, fulfilments and frustrations. It is surrounded and interpenetrated by many forces. These are economic, sociological, institutional and so on; and while some of them are obvious, many of them are usually almost unsuspected. If all these complicated factors may together be labelled the 'problem' of rural credit, it seems equally permissible, while trying to find a way through them, to think in terms of seeking a 'solution'. But, in another sense, no one scheme and no one series of recommendations can solve rural credit, any more than they can solve the social inequalities which exist in India, and any more than they can bring about, quickly, readily and effortlessly, that egalitarian distribution of opportunity or that effective correction of unequal distribution of resources which are laid down as objectives of State policy by the Constitution of India. The particular solution we offer may be found by some too radical; by others, perhaps, not radical and revolutionary enough. To the latter we would point out two considerations we have thought fit to keep in mind. First, we postulate as obvious that the aim should be attainable and the proposals practicable from the point of view of present and potential resources in men and money. Second, in regard to what we consider a much-needed change in individual, social, and institutional attitudes towards rural needs and demands and the rural problem generally, of which credit is only one

of the more obtrusive aspects, we make the fundamental assumption that such a change is to be effected by positive but constructive action within the framework of the law and the Constitution; that it is not something to be brought about by organized subversiveness of parties or dictatorial arbitrariness of Governments. To those who may think our proposals go too far, we would affirm our belief that no part of our solution is so radical as to lose sight of the ability of the State to undertake it; and we would add that anything less radical would not be a solution. We would also emphasize that our principal recommendations are vitally related to one another and together form a unit of policy and action from which no main component may be removed without imperilling the whole. If one or more recommendations are taken out of the total context, accepted and implemented, results may follow; but the results are not likely to add up to the minimum of achievement needed, nor will the scheme be the Integrated Scheme of Rural Credit.

Urgency of action

17. If these recommendations are accepted, there is one point in regard to action on them to which we would invite special attention. In the past, many of the measures of rural credit undertaken by Government have been in the nature of remedial action to rectify damage which had already been done. Most of the steps taken in connexion with debt relief, for example, fall in this category. The pressing need today is to initiate measures which if possible will prevent damage. For that, the moment may be said to be favourable; but there is no time to lose. The Survey indicates that an upward swing in indebtedness has perhaps just begun after a decade or more during which a process of liquidation of past debt has been made possible by relatively good prices. It is, therefore, of the utmost importance that no delay should occur in implementing these proposals for the widening and strengthening of rural credit.

Acknowledgement

18. We are grateful to Shri B. Rama Rau, Governor of the Reserve Bank, for many suggestions, much patience and invariable courtesy. The responsibility for the recommendations is of course entirely our own. It should be added that the responsibility rests with us in our individual capacities. Thus, two of our members, one of them the Member-Secretary, are officers of the Reserve Bank of India; but the proposals to which they personally subscribe in no way commit, or are attributable to, that institution.

CHAPTER 2

INDIA AND RURAL INDIA: STATISTICAL GLIMPSES (I)

Census and Five Year Plan

Two recent documents of importance on India are the Census of 1951 and the Five Year Plan for 1951-6. Both are authoritative official guides, one to the ascertained statistical present, the other to the planned economic future, of the country. The Census is concerned, among other things, with what it describes as the 'pattern of living' and the 'pattern of livelihood'. The Plan is in effect concerned with the pattern of increased means of livelihood and of better standards of living: standards, that is to say, which are not only higher as a whole, but also fairer in their distribution between different classes. What place, in the patterns of living, livelihood, and increased means of livelihood, for India as a whole, does Rural India occupy? Only the briefest and broadest indication is attempted in this chapter. The Census, the Plan and, in one instance, the National Income Committee furnish the material summarized.

I. PATTERN OF LIVING

Rural and urban population

2. There are (or, more accurately, were at the time the Census was taken) 35.7 crores of people in India. Of these, 29.5 crores, or nearly 83 per cent, live in the rural area. The remaining 6.2 crores, or nearly 17 per cent, live in cities and towns. The rural population of India is thus very nearly five times the urban population. Or, to put it differently, *nearly five out of every six Indians live in the rural area.*

Of the 35.7 crores making up the total population, 10.44 crores, or about 29 per cent, are what the Census describes as 'self-supporting' persons. All the rest are in one degree or another dependent on the self-supporting persons; some of them are earning dependents, while the others are non-earning dependents.

Of the 10.44 crores of self-supporting persons in India, as many as 8.57 crores, or 82 per cent, live in the rural area. In other words, *even if we consider, not all Indians, but only those of them who are self-supporting persons, here again nearly five out of six live in rural India.* Of the 3.79 crores of earning dependents, 3.51 crores, or 93 per cent, and, of the 21.43 crores of non-earning dependents, 17.39 crores, or 81 per cent, also live in the rural area.

If we take the rural population by itself, we find that 29 per cent is self-supporting; 59 per cent consists of non-earning dependents and the remaining 12 per cent of earning dependents. Self-supporting agriculturists in the rural area number 6.87 crores and constitute about 80 per cent of the total number of self-supporting persons in the rural area. In other words, *if we take rural India by itself, four out of every five self-supporting persons who live in it are agriculturists.*

But then, agriculturists—i.e., those who in one capacity or another (*rentier*, cultivator, labourer, etc.) derive their principal income from agriculture—are not by any means confined to the rural area. In fact, the Census shows that about 12 per cent of the total number of self-supporting persons who live in the urban areas are agriculturists in this sense. In other words, *one out of every eight self-supporting persons in the urban areas* (*in addition to four out of five in the rural area*) *is an agriculturist.* In that capacity, he is illustrative of many urban classes which have intimate economic ties with the rural area.

II. PATTERN OF LIVELIHOOD

Livelihood classes

3. We now come to the ' livelihood classes ' of the Census. The two broad divisions are agricultural and non-agricultural (which, as just shown, are not the same as rural and urban). Each has four sub-divisions or classes. Thus for agriculturists there are:

Class I—Cultivators of land wholly or mainly owned
Class II—Cultivators of land wholly or mainly unowned
Class III—Cultivating labourers
Class IV—Non-cultivating owners of land and other agricultural rent receivers.

Non-agriculturists are divided into:

Class V—Those engaged in non-agricultural production, i.e., primary industries other than cultivation, as also mining and quarrying, and various types of processing and manufacture
Class VI—Those engaged in commerce
Class VII—Those engaged in transport
Class VIII—All other non-agriculturists.

With this classification in mind, the following table may be seen; it relates each livelihood class to the self-supporting persons in it (1) by themselves and (2) together with their dependents:

Livelihood Class	Self-supporting persons		All, including dependents	
	Number (in crores)	Percentage to total	Number (in crores)	Percentage to total
A. Agricultural				
Broadly				
I. Owner-cultivator (as defined by Census)	4.57	43.8	16.73	46.9
II. Tenant-cultivator (as defined by Census)	0.88	8.4	3.16	8.8
III. Agricultural labourer	1.49	14.3	4.48	12.6
IV. Others	0.16	1.5	0.53	1.5
Total ..	7.10	68.0	24.90	69.8

(*Continued*)

Livelihood Class	Self-supporting persons		All, including dependents	
	Number (in crores)	Percentage to total	Number (in crores)	Percentage to total
B. Non-Agricultural Broadly—				
V. Industry ..	1.22	11.7	3.77	10.5
VI. Commerce	0.59	5.7	2.13	6.0
VII. Transport	0.17	1.6	0.56	1.6
VIII. Others ..	1.36	13.0	4.30	12.1
Total	3.34	32.0	10.76	30.2
Grand Total..	10.44	100.0	35.66	100.0

(Source: Summary Table IV: Livelihood classes and sub-classes, *Census of India, Paper No. 3*, 1953.)

We thus see that the total agricultural population of India—i.e., self-supporting persons and dependents (whether rural or urban) who derive their income wholly or mainly from the cultivation of land—is 70 per cent of the total population. In other words, *seven out of every ten persons in India are dependent on agriculture as their principal means of livelihood.*

We shall, in relation to industry, commerce, transport, etc., consider the pattern of livelihood of the rural non-agriculturists in the next chapter. Meanwhile we may cast a brief glance at a different set of figures altogether. These are the latest estimates of the National Income Committee, according to which the total net national product of India in 1950-1 amounted to Rs 9,550 crores as follows:

	(Crores of rupees)
1. Agriculture, animal husbandry and ancillary activities	4,780
2. Forestry and fishery	110
3. Mining	70
4. Factory establishment and small enterprises	1,460
5. Commerce, transport and communication	1,690
6. Other services	1,440
Total ..	9,550

(Source: *Final Report of the National Income Committee*, 1954, p. 106.)

It will be noted that *half the net national product of India is contributed by agriculture, animal husbandry and allied activities.*

III. PATTERN OF INCREASED MEANS OF LIVELIHOOD

Plan

4. We shall later (in Chapter 6) have occasion to refer in some detail to how agricultural production is planned to be increased during 1951-6 since that has an important bearing on the problem of credit. Here we are concerned with the place in the Five Year Plan of rural economic development generally and agricultural development in particular. We may first put ourselves two questions. How does the estimated outlay on such development compare with the total estimated outlay on the Plan as originally set out? How does the estimated output compare with the total output of the Plan? We may then proceed to ask: What does this mean in absolute terms, i.e., what is the net estimated addition to different food crops, commercial crops, etc., at the end of the five year period? Finally, we might ask: Is it going to be inevitable for the country, from the point of view of nutritional standards and growth of population, to embark on a much larger food programme than finds place in the First Five Year Plan?

Rural development and planned outlay

5. The total outlay proposed on the Plan was Rs 2,069 crores.[1] Its break-up is this:

	Amount (in crores of rupees)	Percentage to total outlay
Agriculture and Community Development	360.43	17.4
Irrigation	167.97	8.1
Irrigation and power (multi-purpose projects)	265.90	12.9
Power	127.54	6.2
Transport and communications	497.10	24.0
Industry	173.04	8.4
Social services	339.81	16.4
Rehabilitation	85.00	4.1
Miscellaneous	51.99	2.5
Total	2,068.78	100.0

(Source: *The First Five Year Plan*, pp. 70 and 88-9.)

Without attempting to pursue the details of rural outlay—these will require a break-up, in turn, of each of the major items—we may note that *about a sixth (17 per cent) of the outlay is on agricultural programmes, rural extension service and community projects, while the three heads under which irrigation or power (or both) figure account for appreciably more than a fourth (27 per cent) of the total,* though not all power generation of course would be of direct relevance to the rural areas. The Community Development Programme, together with the National Extension Service, is of recent but very great

significance, its progress as at the end of September 1953 has been officially indicated as follows:

	Villages	Population (million)
220 Community Projects Blocks (including 3 blocks for Jammu and Kashmir State)	23,650	21.5
237 National Extension Service Blocks	23,700	15.6
457 Total	47,350	37.1

(Source: *Progress of the Plan*, January 1954, p. 26.)

On the irrigation projects, the Census Commissioner significantly comments that "it is scarcely credible but nevertheless true that the First Five Year Plan includes major irrigation projects which are calculated to bring more area under new irrigation than the entire area brought under new irrigation by all major irrigation projects which were constructed during a century of British rule." As explanation of the phenomenon, he later adds: "In the old days, the selection of projects for execution was limited by the consideration that the net revenue return should suffice to render the enterprise a profitable undertaking for the State. (There were well-recognized exceptions to the rule, but they were limited.) We have discarded this limitation, and hence the large scope for development which we are now using up."[1]

Agricultural output and national income

6. According to the Plan, the pattern of the net national output is likely to alter as follows between 1948-9 and 1955-6:

	1948-9 Percentage to total	1955-6 Percentage to total
Agriculture	46.6	47.7
Forestry and fishery	0.9	0.9
Mining, manufacturing and hand-trades	17.2	18.1
Commerce, transport, communications and other services	35.3	33.3
Total ..	100.0	100.0

(Source: *The First Five Year Plan*, p. 102.)

The Plan itself adds: "*It will be seen that the largest addition to national output is expected to come from the agricultural sector* though, in terms of percentage increases,

[1] *Census of India*, 1951, *Vol. I (India), Part 1-A—Report*, pp. 198, 199.

the greatest improvement is likely to be shown in industries organized on a factory basis." Apart from this, it will be noticed that *at the end of the First Plan, on the estimates given above, agriculture will continue to make far and away the largest single contribution to the national output. It will retain the position of being nearly equal to all the others put together.*

Increases in agricultural production

7. What does this expected addition to the national output, through the planned increase in agricultural production, mean in concrete terms? According to the Plan it means mainly—

(i) an additional 7.6 million tons of foodgrains (14 per cent increase),
(ii) an additional 0.7 million (*gur*) tons of sugar-cane (12 per cent increase),
(iii) an additional 0.4 million tons of oilseeds (8 per cent increase),
(iv) an additional 20.9 lakh bales of jute (63 per cent increase), and
(v) an additional 12.6 lakh bales of cotton (42 per cent increase).

It also implies that the acreages under different crops will increase as follows:

	(Area in lakhs of acres)	
	1950-1	1955-6
Rice	760	800
Wheat	240	270
Other cereals	930	900
Gram and pulses	472	490
Cotton	146	180
Jute	14	20
Sugar-cane	42	45
Oilseeds	267	270
Fruits and vegetables	50	60
Other crops	250	240
Total	31,71	32,75

(Source: *The First Five Year Plan*, p. 214.)

In other words, *at the end of the present Plan, the total cropped area will have increased by 100 lakh (or 10 million) acres.* Only a small part of the increased foodgrains will, however, be from reclaimed land. Mainly, there is to be a programme of more intensive cultivation through irrigation (both major and minor), better seed, larger supply of fertilizers, etc.

Food production, nutrition and population

8. A balanced diet requires much else besides cereals. But a minimum of cereals alone, in a minimum balanced diet, according to the Nutrition Advisory Committee, would have to be 14 oz. per adult per day.[1] If we take the purely arithmetical availability in India--which, of course, for the poorer classes, is very different from the economic reality—we have only 13.71 oz. of cereals per adult per day. This is on the figures for 1950, with an estimated population of 35.30 crores and an estimated cereal production of 45.13 million tons. In 1956,

[1] *The First Five Year Plan*, p. 158.

according to the figures given in the *First Five Year Plan*, the population may be placed at 37.76 crores, and the requisite cereal consumption (including seeds) at 52.01 million tons. If the *per capita* (arithmetical) availability of food is to be raised to 14 oz. per day, the deficit which will face us in 1956, assuming for a moment that production remains at the 1950 level, would be about 7.8 million tons of cereals. As against this, we have seen that the production of foodgrains (including gram and pulses) is estimated to increase by 7.6 million tons at the end of 1955-6. So far this may not seem too bad, at any rate from an arithmetical point of view. But even arithmetically, according to the Census Commissioner, much worse is to follow. He develops this view in relation to agricultural production as a whole, and not merely cereals. The productivity of agriculture (food, cash and other crops included) was about 70 million annual tons[1] in 1951, and the population 36 crores. It is calculated that, in order to feed and clothe 36 crores of people at the current rate of consumption, an annual agricultural productivity of 75 million annual tons is required. In other words, five annual tons are required for every twenty-four persons. In the next few decades, according to the Census Commissioner, the population will increase and the needs mount up as follows:

Year	Population (crores)	Needed agricultural productivity (million annual tons)
1951	36	75.0
1961	41	85.0
1971	46	96.0
1981	52	108.0

(Source: *Census of India*, 1951, *Vol. I (India), Part I-A—Report*, pp. 190, 194.

Mere maintenance of current levels of consumption will then require a stepping up of agricultural productivity from 70 million tons in 1951 to 85 million tons in 1961. This represents an increase of 21 per cent over the 1951 level. The dynamic programme of agricultural production that will be needed to achieve such an increase will not be possible without an equally dynamic programme of agricultural credit.

[1] Excluding seeds. For an explanation of the terms 'annual tons' and 'productivity' reference may be made to the *Census of India*, 1951, *Vol. I (India), Part I-A—Report*, pp. 192-3.

CHAPTER 3

RURAL INDIA AND THE CULTIVATOR: STATISTICAL GLIMPSES (II)

People, land and produce

IN considering Rural India and the place in it of the cultivator, we have to keep in mind three main aspects: the people, the land and the produce. Section I of this chapter deals with the rural population and its more important occupational groups; among these, besides the cultivator, are the agricultural labourer and the village handicraftsman. Land forms the subject of the next two sections: the land as a whole in relation to the people of India as a whole (Section II), and the cultivated land in relation to the cultivator (Section III). In the raising of produce and the disposal of it is epitomized a whole range of economic activity which takes place on the land and around it, and in which, at one time or another, are engaged practically the whole of the rural population besides a large number of people from the towns and the cities. Some of the processes which make up this activity, and the presence or absence of conditions which alone can make those processes fruitful for the cultivator, come in for brief mention in Section IV. The data for Sections I and II are mainly drawn from the Census and for Sections III and IV from the Survey. The particular Survey data of which only 'glimpses' are given in the latter two sections are presented in greater detail in Chapter 6.

I. THE RURAL POPULATION: THE CULTIVATOR, THE LABOURER AND THE HANDICRAFTSMAN

People

2. In a total rural population of 29.50 crores, the number of self-supporting persons, as we have seen, is 8.57 crores. We have also noted that as many as 6.87 crores—or broadly four out of every five self-supporting persons in the rural area—derive their principal income from agriculture. Included in this number are 1.43 crores of 'cultivating labourers'. *This makes slightly more than one self-supporting agricultural labourer in every five self-supporting agriculturists in the rural area; 'rentiers' etc., are relatively so few, that the remaining four, or slightly less, are for all intents and purposes 'cultivators', including in that term both owner-cultivators and tenant-cultivators.*

That leaves 1.70 crores, or nearly a fifth of the self-supporting element of the rural population, whose principal means of livelihood lie elsewhere than in agriculture, though for many of them, of course, agriculture remains an important subsidiary source of income. What is the pattern of livelihood of the rural non-agriculturists? Leaving aside *rentiers* and certain miscellaneous recipients of income (constituting

in all about five lakhs), we have for the rest the following particulars from the Census:

	Means of livelihood	Number (In crores)	Percentage to total
1.	Commerce	0.24	14.6
2.	Transport, storage and communications	0.06	3.6
3.	Processing and manufacturing:		
	(*a*) foodstuffs, leather, textiles and products thereof ..	0.28	17.0
	(*b*) metals, chemicals and products thereof	0.05	3.0
	(*c*) not classified elsewhere	0.15	9.1
4.	Health, education and public administration	0.12	7.3
5.	Mining and quarrying	0.05	3.0
6.	Construction and utilities	0.08	4.8
7.	Other primary industries not elsewhere specified	0.21	12.7
8.	Services not elsewhere specified	0.41	24.9
	Total ..	1.65	100.0

(Source: Summary Table No V—Employers, employees and independent workers by divisions and sub-divisions, *Census of India, Paper No. 3*, 1953.)

A point to notice is that 29 per cent of those classed as rural non-agriculturists are engaged in the processing of foodstuffs, manufacturing of textiles, leather, metals, etc., and other cottage and small-scale industries. In addition, as many as 13 per cent are engaged in other 'primary' industries which include animal husbandry, forestry, fishery, etc., making up, together with the previously mentioned group, 42 per cent of the total. To summarize the position, *if we take the self-supporting non-agricultural population of the rural area (itself a fifth of the total self-supporting rural population), and consider every TEN rural non-agriculturists, FOUR are engaged in 'primary' industries, including, besides various cottage and small-scale industries, others such as processing and dairying which are dependent on agriculture; THREE are engaged in miscellaneous services and public administration (the latter accounting for much fewer than the former); while the other THREE are equally divided between village trade on the one hand and a number of different occupations such as house building, mining, quarrying and carting on the other.*

II. THE LAND AS A WHOLE AND THE PEOPLE OF INDIA AS A WHOLE

Land and people

3. The Census gives a great deal of interesting information on this subject, but it will suffice to set down in our own words a few salient points from the Census Report:

(1) The total area of the land, including in it everything that is in the nature of land, is 81 crores of acres. The population is 36 crores. The land *per capita* is thus 2.25 acres or 225 cents. We have to find out how much of this, for various reasons, is not suitable for cultivation, and make the necessary deductions.

(2) There are certain geographical features which occur in different parts of the country such as mountains, hills and plateaus; even portions of plains display features

of 'topographical unsuitability'. We have, therefore, first of all to exclude various percentages of all these as prima facie unsuitable for cultivation. If, accordingly, we 'write off' 95 per cent of the mountains, 75 per cent of the hills, 25 per cent of the plateaus and 5 per cent of the plains, the balance is 151 cents.

(3) That does not exhaust the prima facie unsuitable. There are certain areas like the Rann of Kutch and the Rajasthan 'sandy waste' which occur solidly and must be 'written off' as solidly. Having done so, we find ourselves left with 140 cents of 'topographically usable' land.

(4) The topographically usable is not necessarily the agricultural. There are forests for one thing and towns and cities for another, most of them situated on 'topographically usable' land. Then there is the important consideration that the soil itself, in some parts, is below the minimum degree of suitability for normal cultivation. Making detailed allowances for all these factors, the Census arrives at 97 cents as the available agricultural land *per capita* out of the 225 cents of all land *per capita* with which we started. The corresponding figures for the world as a whole are 351 cents *per capita* (agricultural land) and 1,354 cents *per capita* (all land).

(5) In many parts of the world, but not in India, there is a further and very real difference between 'agricultural' land and 'arable' or 'cultivable' land; for, elsewhere there is room for setting apart a large portion of agricultural land as 'permanent meadows and pastures' for cattle, only the rest being used for cultivation. Thus, for the world as a whole, the arable land is 126 cents *per capita* out of agricultural land of 351 cents *per capita*. For Europe, exclusive of U.S.S.R., the arable land is 92 cents, and the agricultural land 153 cents. In U.S.A., the agricultural land *per capita* is as much as 741 cents. In India, there is no scope for other than a literally insignificant margin for 'permanent meadows and pastures' (which must be distinguished from land on which fodder may be grown as a cash crop). Our cultivable land and agricultural land are one and the same, viz., 97 cents *per capita*.

(6) There is one last distinction to be drawn, namely, between the cultivable land *per capita* and the cultivated land *per capita*; for, fallows have to be kept, seasons are often inclement, and these and other factors combine to render the cultivated land less than the cultivable land. In India, the cultivated land *per capita* has been going down since 1921. The Census gives the following table which is based on a specially intensive study of representative regions:

Census year	Area of cultivated land *per capita* (Cents)
1891	109
1901	103
1911	109
1921	111
1931	104
1941	94
1951	84

(Source: *Census of India*, 1951, *Vol. I (India), Part I-A—Report*, p. 141.)

The drop from the 1921 level, it may be noted, is nearly 25 per cent.

(7) "There is little doubt," says the Census Commissioner in another context, "that the rate of growth of rural population has substantially outstripped the rate of progress of cultivation. Has there been a growth of rural industries and services on a scale sufficient to offset this difference or indeed to any extent at all? It seems very unlikely, though we cannot support a definitive answer conclusively by statistics." Elsewhere in the Census is evidence of large numbers migrating from villages to towns. Between the last two Censuses, for example, the population of towns has grown by 41.3 per cent and of villages by only 8.9 per cent. The two preceding decades had shown a similar trend.

(8) Briefly, the picture of the land and the people which the Census reveals is one of increasing pressure on the land by the people of India as a whole, whether they are consumers of what the land produces or are themselves producers on the land. For the latter, this, in turn, has implied an increasing inability to earn their normal livelihood from the land. That is a consideration which brings us to the cultivated land in relation to the cultivator.

III. THE CULTIVATED LAND AND THE CULTIVATOR

Land and cultivator

4. In the preceding section, we have seen how much land is arithmetically available in India today *per capita* of total population, not for each family, still less for each family of cultivators. The figure has obviously little relation to the actual size of cultivated holdings. Some of the Survey data pertain to the size of cultivation of different classes of cultivators, that is to say (in the sense explained in the introductory chapter) of the 'large' cultivator (first 30 per cent in the village), the 'medium' cultivator (middle 40 per cent), and the 'small' cultivator (last 30 per cent), besides the 'big' cultivator who represents the top 10 per cent included in the first group. Certain all-India averages may be mentioned, subject to the caution that the variations from these for different States are considerable. The large cultivator cultivates 58 per cent of the total sown area. (Within this group, the corresponding figure for the big cultivator is 30 per cent.) The medium cultivator, numerically two-fifths of the cultivators, has less than a third of the sown area under him. There is an even steeper descent when we come to the small cultivator. Though he constitutes 30 per cent of the total number of cultivators, his sown area is just a little more than a tenth of the total area sown by all cultivators. In terms of the average area sown, the small cultivator has about three acres; the medium cultivator has slightly more than twice, and the large cultivator more than five times, that area. The area sown by the big cultivator is nearly nine times the area sown by the small cultivator.

IV. THE PRODUCE AND THE CULTIVATOR

Disposal of produce

5. About 75 per cent of the total sown area is under cereals and pulses, that is to say, under 'food crops' as defined for the purposes of the Survey. Among the many cash crops grown on the remaining 25 per cent of the sown area, oilseeds occupy the largest single place; about 38 per cent of the total area covered by cash crops is under oilseeds. The percentage of area under cash crops varies very considerably from region to region. A significant fact is that, though cash crops are grown on a little more than a fourth of the total

area, their gross value is roughly equal to that of the food crops grown on nearly three-fourths of the area. It is also interesting to note that slightly less than one-seventh of the total area under cash crops is accounted for by fodder, an index to the importance of animal husbandry in the rural economy. As broad general percentages (derived for all crops and all classes of cultivators all over the country), it may be mentioned that about 35 per cent of the total production is sold by the cultivator, a large part of it (about 24 per cent of the total) to traders and commission agents, 15 per cent disposed of in kind as wages or rent, and nearly 8 per cent utilized as seed.

The distinction between large tracts of the country which are 'subsistence' (broadly, non-surplus food crop) economies and certain other areas which are, in varying degrees, 'cash' (broadly, commercial crop or surplus food crop) economies is clearly brought out by the Survey. In about one out of every three of the districts surveyed, less than 15 per cent of the total produce was sold to professional traders and commission agents. This was typical of the subsistence areas. On the other hand, in about one out of every eight districts, more than 45 per cent was sold to professional traders and commission agents. This was typical of the cash crop areas. The average value of the produce sold by a cultivator in these areas was nearly six times the corresponding figure for the subsistence areas.

Storage, marketing and processing

6. The preponderance of sales within the village itself—as distinguished from sales at the market town—is apparent from the Survey. It has been found that in very nearly two-thirds of the sale transactions entered into with traders etc., the commodity was delivered in the village itself. Along with this fact must be taken into account certain others. There is little available to the cultivator either by way of storage or of orderly marketing arrangements designed for his benefit. Co-operative marketing societies are few: out of the 75 districts surveyed, in only five did the produce sold through co-operatives exceed 1 per cent of the total sales to all agencies. Moreover, if the cultivator wants credit before or after the harvest, the co-operatives are of little or no help to him in most areas. Here again it is to the trader or to the moneylender (who is quite often also a trader) that he has for the most part to resort

Scarcely less important than the marketing of produce is the processing of produce for sale: thus, paddy has to be de-husked and cotton ginned. As will be seen later (in Chapter 7), the part which co-operatives play in processing is infinitesimal.

Roads

7. Good roads are essential for the proper marketing of produce. The absence of any communications classifiable as roads in large rural tracts of the country is reflected in the low all-India average of 0.22 mile of road per square mile. This, it has been pointed out, is less than the standard (0.30 mile of highway per square mile) for a 'desert area' in the United States.

CHAPTER 4

GLIMPSES OF THE OPERATIONAL PICTURE: RURAL CREDIT AND THE CO-OPERATIVE AGENCY

IN this chapter, we propose to illustrate by brief extracts from various sources the actual working of different types of co-operative societies in different parts of India. The selection does not in the least purport to be representative of the levels of co-operative development attained in the areas—State, district or other—mentioned in some of the illustrations. Nor is the object one of conveying by this means some indication of the proportion of success, failure or just mediocrity with which co-operative societies, as a whole, operate in India. Indeed, successful societies are much fewer than the examples chosen might suggest. But both success and failure are important in our choice which has for its main purpose the illustration, not so much of a pattern of results, as of the mechanism underlying them: of the various factors, in other words, which make for success or partial success in some cases and failure in others. It is further intended that the presentation should cover a fair cross-section of co-operative activity such as credit, processing, marketing and dairying, and of different types of co-operative organization such as primary credit societies (single-purpose), multi-purpose societies and central banks. A preview, from first-hand reports, of the manner and the circumstances in which these institutions function in actual practice is of great importance for a proper appreciation of the arguments later developed, as well as of the recommendations made, in this Report. For obvious reasons, the names of most of the societies and banks and occasionally even of the State in which they are located are withheld in giving the quotation or reproducing the material. The source from which each extract has been taken is indicated at the end of it; where the source is a published document, its particulars are specified. Other sources used are: the material collected by the officials of the Rural Credit Survey during the course of their investigation (R.C.S.), data in the possession of the Agricultural Credit Department of the Reserve Bank (A.C.D.) and replies to our Questionnaire from either official respondents (O.R.) or non-official respondents (N.O.R.).

1. SINGLE-PURPOSE PRIMARY CREDIT SOCIETIES

"A 'thrift and credit society,' i.e., an ordinary primary credit society, was established a few years ago in a Part A State. Among the most prominent of its promoters was X, the previous chairman, who was also a member of a big landowning family of the village in which much land is held on *inam* tenure which involves 'alienation' by Government to the superior holder of some or all of the land revenue due to itself. Another prominent promoter was Y, the present chairman. During the chairmanship of X, the only deposits which the society attracted amounted to the paltry sum of Rs 25. He soon resigned from his chairmanship, but not on this account. He found that he could

not agree with the other members of the managing committee on a vital issue, viz., whether loans might be granted to tenants against the security of the *inam* land which they held on lease. He said this should not be done. Subsequently, Y became the chairman. He, with the consent of the managing committee, granted loans to members on the security of the *inam* lands they cultivated as tenants. The inspector of the central bank of the district strongly objected to this and insisted on immediate recovery of such loans. It took some time to persuade the authorities of the bank to acquiesce in this procedure. Thereafter, an amount of about Rs 2,500 was advanced to various members, including landless persons, on the strength of sureties. Slowly the society is attracting deposits from members. These now amount to nearly Rs 1,000. During the years 1950-1 and 1951-2 the society made a small profit; it had incurred a loss in 1949-50. The present chairman happens to be one who wields considerable influence in the village, though not as owner of land. He takes keen interest in the society, does the work of the secretary as well and, what is rare among societies, even maintains the accounts up to date. The managing committee stands solidly behind him in all his decisions. But, along with all this, is something else which is as noteworthy as it is rare in this part of the country (and perhaps elsewhere): taking the body of villagers as a whole, there are no parties or party factions in this village." (R.C.S.)

"A thrift and credit co-operative society in the Hoshiarpur District of Punjab, was registered in 1940; it is classed 'A'. On 30 June 1951 its membership was 103 and it had a working capital of Rs 7,736. Its paid-up capital amounted to Rs 2,765 and deposits from members and non-members to Rs 3,788 and Rs 1,183 respectively. Loans advanced during the year amounted to Rs 3,311, while loans outstanding at the close of the year were Rs 8,420. The society has been working at a profit. The membership of the society is drawn from one tribe, i.e., Sainis or Bahtis, a fact which helps in the maintenance of cordial relations between members. Though the holdings of members are small, the land is fertile. Most of the members follow subsidiary occupations and thus supplement their income from agriculture. Recoveries of the society from members have been satisfactory." (R.C.S.)

"Another co-operative thrift and credit society (also in Punjab) was registered in 1916. In spite of nearly 35 years of existence, the progress of the society has been unsatisfactory. In 1950-1 its membership was only 30 and its working capital was Rs 2,993. During that year only three loans amounting to Rs 1,100 were made. The village is situated in a scarcity area. The society is under the influence of the cashier and the president who happen to be brothers and who do not take any interest in its working. There is another credit society in the village which is also a small institution with a membership of 24 and working capital of Rs 3,222 in 1950-1." (R.C.S.)

"A society in a Part A State was registered in 1940. In 1950-1 it had 29 members and a working capital of Rs 1,049 only. There are heavy overdues and no attempts have been made to recover them. The managing committee sanctions loans only to their

relatives and not to those who really deserve them. The loans are not utilized for the purposes for which they are supposed to be given." (R.C.S.)

"A society in Sultanpur District, Uttar Pradesh, was registered in 1946 with 64 members. For about two years the society functioned satisfactorily. But later on party factions developed, with the result that the two rival groups in the society are trying to dominate its affairs. The membership has increased to 125 mainly for the reason that each group is trying to gain a majority over the other in the society. But another result of the feud has been that no loans were distributed in 1950-1. A large number of loans remains overdue." (R.C.S.)

"A society in a Part A State was registered in 1949. Out of 364 families in the village, only 21 were members in 1950-1. No loans were given during the year 1950-1. Nearly 15 per cent of the outstanding loans are overdue. A loan which the *sarpanch* (chairman) of the society himself took from the society accounted for Rs 600 out of a total of Rs 1,195 for all loans advanced during the year 1949-50; and the amount remains outstanding against him. His repaying capacity did not warrant this relatively big loan." (R.C.S.)

"A primary credit society in Madhya Pradesh was registered in 1916. The liability of the society was unlimited and the existing members were reluctant to admit any new ones. As a result, two more credit societies were registered in the same village in 1917. On 30 June 1951 in spite of 30 years of existence it had only 13 members, a paid-up share capital of Rs 152 and reserves amounting to Rs 675. Loans advanced during the year amounted to Rs 1,774 and loans outstanding at the close of the year were Rs 1,373. The village is situated in the canal tract and the soil is fertile. The existence of two more societies in the village, however, stands in the way of expanding the membership and the business of the society." (R.C.S.)

"A society in the Bombay State was registered in 1926. Its jurisdiction extends to five neighbouring villages, but it had only 24 members in 1951. Its paid-up share capital and reserve fund amounted to Rs 1,340 and Rs 1,498 respectively. Deposits from members and non-members were negligible. The central bank loans outstanding against members at the close of the year were Rs 5,065. Rivalry between various groups in the villages is reported to be chiefly responsible for the unsatisfactory record of the society. New members are not admitted by the managing committee. It is nominally a multi-purpose society and the liability of the members is unlimited; but in actual fact it is a single-purpose society since no other activity besides credit has ever been undertaken by it." (R.C.S.)

"The reason for the very low borrowing capacity of a certain society (with unlimited liability) in Bombay is that the value of the assets of the society is very small.

The village is an *inam* village and a large number of cultivators are merely tenants. Naturally, the majority of the members are tenant-cultivators. This is a major obstacle in the way of the expansion of the society, because loans can be advanced either against the security of land or against the guarantee of two sureties. Very few members own land; most of them have themselves borrowed and cannot stand as sureties till they repay their own loans." (R.C.S.)

"A credit society in a village in a Part A State was registered in 1911 and in the course of 40 years it has been able to collect Rs 3,090 only by way of share capital. The village is notorious for its factions. There are two parties, both of which have their representatives in the managing committee of the society. There is no cordial relationship between members and no unity of purpose in the managing committee. Every member of the managing committee takes interest in the work of the society not in order to improve it, but to strengthen his and his party's position. Consequently, when the normal credit statement is presented to the general body meeting, loans are recommended to each and every applicant because rejection of any application would lead to a fight between the two parties and the crops and the haystacks of the opposing member will be burnt at the earliest opportunity. So, normally, the managing committee neither exercises real discretion in recommending loans nor takes any steps to recover the loans advanced. Loans are allowed to become overdue. The secretary belongs to the more powerful of the two parties which is represented in the managing committee by X. The other party is led by the *patil* of the village and by the present chairman Y. It is known that the purpose of the more powerful section in allowing the leader of the opposition party to become the chairman was to discredit him by proving that he is incompetent and that he will not be able to recover the loans advanced by the society. The former party has been attempting to induce members not to repay their loans. As a retaliatory measure, the chairman has decided to refer as many cases as possible for arbitration. The society has a paid secretary Z who has been able to maintain his position by virtue only of his party alignments. What is more, he has managed to become the secretary of another society as well, in a village three miles distant from this." (R.C.S.)

"Established in 1912, the society in a village in a Part A State had, at the end of June 1951, 168 members and operated in 4 villages. The owned funds amounted to Rs 5,748 of which share capital was Rs 909 and the reserve fund Rs 3,267. The society has no deposits. It owes to the central bank a sum of Rs 2,265 which has been overdue for a long time. As there have been overdues since 1932-3, the central bank has not made any fresh advances to it since 1945-6. This is a reflection of the society's own dealings with its members; the entire outstandings from members amounting to Rs 5,389 are overdue; out of this, bad debts are estimated to be Rs 1,680. No loans were advanced to members during 1949-50 and 1950-1. Several unsatisfactory features characterize the functioning of the society: (*a*) the president and the secretary were both, at an earlier stage, themselves defaulters; and after the reconstitution of the board in March 1951 the new president is also a defaulter; (*b*) *benami* transactions are reported, members being made to borrow for more powerful parties; (*c*) timely steps

are not taken for recovery of dues with the result that some cases became time-barred in 1950-1; and (*d*) though non-credit activities such as purchase and sale of cloth, oilcakes, etc., helped the society to make a profit in an earlier year, no such activities are now being undertaken. The members do not look upon it as their responsibility to repay their dues; for instance, they also owe a considerable amount to the loan and sale society in this area which happens to be now dormant. The *panchayatdars* are themselves defaulters." (R.C.S.)

"A society with unlimited liability in the Malda District of West Bengal, which had been registered in 1939, had at the end of June 1951 a membership of 37 and its area of operation was confined to a small part of the village. The paid-up share capital and reserve fund are negligibly small, being Rs 146 and Rs 23 respectively. With such a poor position in regard to owned funds and the absence of any deposits, the society is entirely dependent on borrowings from the central bank for financing its members. Its sole activity has been that of passing on to members the loans taken from the central bank; in fact, in two years in the past when the central bank did not lend at all to the society owing to overdues, its activities came to a standstill. Borrowings from the central bank fell to Rs 400 during 1950-1 as against Rs 2,380 in the previous year. Loans outstanding at the beginning of the year 1950-1 amounting to Rs 1,280 were fully repaid during the year and an amount of Rs 400 advanced during the year was outstanding on 30 June 1951. The level of activities of the society—both borrowings and lendings—has remained relatively stagnant over a period of many years and, after 12 years of its functioning, its operations and membership are still very small." (R.C.S.)

"The area of operation of a society with unlimited liability in the Mirzapur District of Uttar Pradesh is a *mohalla*, and its membership is only 25, though it has been in existence for about 18 years. With a paid-up capital of Rs 1,751, a meagre reserve fund of Rs 719 and other funds of Rs 495, the owned funds of the society aggregate Rs 2,965. It has negligible deposits and has not borrowed at all from the central bank though it has a credit limit of Rs 3,500 with that institution. Its advances during 1950-1 to members amounted to Rs 3.200. Of the outstandings of Rs 1,960 at the end of the year, only a sum of Rs 30 was overdue. The society made a net profit of Rs 185 in 1950-1. Though the functioning of the society discloses no unsound features financially, it is clear that the society could have made much further progress than it actually has over 18 years in regard to membership, the total amount lent to members and the amount lent per member. Lack of incentive to do so, as also lack of local initiative, combined with the policy of restricting its advances to the size of its owned funds, appear to explain the present position. The management is, however, not divided by any factions or party politics." (R.C.S.)

"There is a type of thrift society called *bhishi*, resembling the chit funds of the south, which is common among all classes of society, especially traders and labourers, in the Kolhapur District of the Bombay State. *Bhishis* advance loans up to a certain extent and for certain purposes. Before starting a *bhishi*, its duration (usually between

one and three years) and the rate of savings expected of the members are decided upon. The contributions made by members, together with interest, are repaid to them on the termination of the *bhishi* in proportion to their share in savings. *Bhishis* can, however, be terminated even before the period normally fixed for them; they thus lack continuity. At present *bhishis* number 79; all of them were 'registered' before the merger of Kolhapur with Bombay State. No new *bhishi* is being registered at present. The following data relate to the operations of *bhishis* for the year 1950-1:

Number of *bhishis*	79
Number of members	8,057
Share capital	Rs 1,20,907
Members' deposits	" 3,00,441
Reserve fund	" 8,459
Other funds	" 2,012
Loans to members	" 5,00,146."

(R.C.S.)

"A grain bank was registered in the Nizamabad District of the Hyderabad State in 1943 with a membership of 365 and share capital of 1,326 maunds of grain. On 30 June 1953 its membership was 679 and it had a share capital of 4,228 maunds. Loans are made in kind and recovered also in kind. The rate of interest charged is 20 per cent. [It may be added in parenthesis that this should not be regarded as necessarily excessive for recoveries in grain, since storage, loss by pests, etc., have to be provided against; the *sawai* rate of interest—25 per cent—is quite normal for grain loans. Whether such seemingly high rates are in fact justifiable depends on a variety of local circumstances, including facilities for storage and marketing.] Even the salaries of the paid staff are paid in kind. During the year 1952-3, loans advanced to members amounted to 392 *pallas* and 102 seers. Loans outstanding at the end of the year amounted to 1,332 *pallas* and 33 seers. The net profits earned during the year amounted to 186 *pallas*. The bank has recently purchased a plot of land for constructing its godowns. This is a good example of a type of grain bank which serves the credit needs of 'subsistence' economy areas in certain parts of India." (A.C.D.)

"A co-operative grain *gola* was registered in 1920 in the Sadar sub-division of Angul, Orissa, when there was a severe famine. In order to relieve the distress, Government started a number of grain *golas* of which this was one. Its area of operation extends to 13 villages situated within a radius of 5 miles. Its membership in 1950-1 was 755 out of a total population of 8,323 in the villages in its area of operation. An important reason for this small membership seems to be that, in order to be a member, a person must have at least one acre of irrigated paddy land. All the dealings of the *gola* are in kind. Each member has, for 5 consecutive years, to contribute 10 seers of paddy for each acre of land he cultivates. Some members and non-members had also 'deposited' grain amounting to 184 maunds. The paddy stocks with the *gola* are used for giving loans to members at an interest rate of 15 per cent per annum. The maximum

limit of loan per individual is 25 maunds. Paddy is advanced for seed as well as for consumption." (A.C.D.)

"This society in a village in Madhya Pradesh was said to be a typical society. It was registered in 1912. I asked why the membership of the society was poor and why more members had not joined the society. The reply was that most of the other people were petty tenants and the existing members were not willing to admit such persons. Because of the operation of unlimited liability, they wanted men of their own choice." (A.C.D.)

"A society in . . . District, West Bengal, was organized with the entire village, consisting of about 200 houses, as its area of operation. But a very small number of people joined who were mostly related to one another. The solvent class of people remained aloof from the society on account of its unlimited liability." (R.C.S.)

"A society in Uttar Pradesh was registered as a credit society in 1922. . . . The *panchayat* consists of five persons and it was wielding complete control over all members since the last general elections, when friction arose between two parties in the society. ... One party, the minority one, is being backed by certain directors of the central bank due to party affiliations, and the majority party has lodged arbitration proceedings against the former, including the managing director of the bank. . . . Since the dispute arose between the two parties, no collections worth the name have been made nor has any loan been advanced." (R.C.S.)

"The *sarpanch* of a primary agricultural credit society registered in 1923 in a Part A State is a moneylender. . . . The *sarpanch* of another society, also in a Part A State, is an ex-moneylender. . . . The secretary of a primary agricultural credit society in a Part B State does private moneylending to supplement his income; he has considerable influence on the members and misuses his powers; for example, instances have come to light of his reluctance to disburse loans (even when sanctioned) to members who happen to be his private debtors." (R.C.S.)

II. MULTI-PURPOSE PRIMARY CREDIT SOCIETIES

"Registered in 1919, a co-operative credit society in the Salem District, Madras State, which has a jurisdiction covering 3 villages, had a membership of 1,151 on 30 June 1952; its paid-up share capital and reserve fund amounted to Rs 14,754 and Rs 14,918 respectively; the deposits totalled Rs 53,576 of which the contribution from non-members was Rs 41,015. It is an outstanding feature of the society that it is working entirely with its own resources in the shape of deposits without having to borrow from the central bank. The total amount lent by the society in 1951-2 was Rs 44,445. The society has constructed a godown for the storage of members' produce; it purchases and

distributes chemical manure, hires to its members a sugar-cane crusher, iron ploughs and a spring balance owned by it, runs a library and a reading room, and maintains a veterinary first aid centre. Among other things, the society is reported to be fortunate in the person who continues to be its secretary." (A.C.D.)

" A co-operative society in the Ahmednagar District (Bombay State), registered in 1916, had about 80 members on its roll on 30 June 1953. Its owned funds amounted to about Rs 85,000, including a paid-up share capital of about Rs 50,000, and a statutory reserve fund of about Rs 30,000. Of the loans outstanding with members amounting to more than Rs 1,10,000, only an amount of about Rs 7,500 was overdue. The society owns a building valued at over Rs 9,000. The non-credit activities undertaken by the society include the distribution of cloth and the running of a fair price shop, besides grow-more-food work such as the digging of compost pits and the planting of trees. The members take an active interest in the working of the society. The attendance at meetings of the general body is satisfactory. Able guidance is available from certain local co-operators. The society is assisted by its financing bank as well as by the State Government. It works at a profit and continues to be classed 'A' since 1941." (A.C.D.)

"A co-operative credit society in the Salem District of the Madras State, was established in 1935. Its area of operation extends to four villages. On 30 September 1952 it had 1,968 members and a paid-up share capital of Rs 10,514. Its reserve fund was Rs 4,209. Deposits from members amounted to Rs 4,839 and from non-members Rs 1,613. Loans from the central bank amounted to Rs 1,37,872. Not only short-term accommodation but also medium-term and long-term loans are made available to members. The first two are given on personal security or on immovable property while the long-term loans are given against the security of immovable property only. Of Rs 1,57,139 outstanding against members, short-term loans amounted to Rs 1,10,734, medium-term Rs 15,400 and long-term Rs 15,080. The society also gives loans under the 'controlled credit scheme' (credit linked with marketing); such loans amounted to Rs 24,925. During the year 1951-2 the society disbursed Rs 10,000 as cash credit loans for groundnut, and produce of the value of Rs 14,000 was marketed by the borrowers through the local co-operative marketing societies. The society has purchased 50 electric pump-sets of the value of Rs 67,906 and distributed them among the members under the joint purchase scheme. It has constructed a godown at a cost of approximately Rs 32,500; half of this amount was advanced to it by Government as a long-term loan repayable over 20 years; the society itself has collected members' donations amounting to Rs 12,064; the balance has been given, as a free grant, by Government. The society has a common good fund from which certain medicines are purchased and supplied free of cost. The society has been sanctioned an overdraft accommodation of Rs 20,000 by the district co-operative central bank. This enabled it, in respect of urgent loans not exceeding Rs 250 each, to cut out the delay involved in the previous securing of sanction and funds from the central bank; when subsequent sanction in respect of such loans is received from the central bank, the funds made available along with it are utilized for restoring the overdraft to its original level. The society has distributed *hundi* boxes among its

members to encourage savings; the thrift deposits collected in this manner amounted to Rs 768." (A.C.D.)

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"The Alamuru Co-operative Rural Bank, Andhra State, is a society working in an area irrigated by canals of the Godavari. It covers 13 villages with a total population of 40,000 (or about 8,000 families) and has the relatively large membership of 4,496. A remarkable feature is that tenants-at-will and labourers account for as many as 2,906 members. By itself giving small loans to its more needy members in the slack season for purchase of cloth and rice, this bank has been able to prevent landlord-moneylenders and *sowcars* from exploiting labour through cash and grain loans. Tenants-at-will get cultivation loans up to 10 per cent of the standing crops. Loans to labour for domestic and cultivation expenses are issued as 'joint loans', thus making a group of which the individuals are related to each other or are bound by caste ties responsible for the loan. Labourers are asked to deposit their savings in the bank and the amounts are collected by two agents who visit their homes: the deposit of such savings is one of the conditions on which loans are issued to labourers. The bank has taken on lease 500 acres of irrigated land from Government at a fixed rental of Rs 10,000. The land is made available for cultivation by landless labourers; each group of families gets ten acres as also short-term accommodation for the expenses of cultivation etc. This has had the effect of loosening the hold which contractor-lessees previously had on these labourers, for the land in question was previously in the hands of such lessees. Artisans, brick-workers, etc., are also given loans. The bank runs depots for the sale of rice, cloth and timber. The educational level happens to be relatively high; besides, it happens to coexist with a desire for improvement which is shared by practically all the local communities. Above all, the bank has been extremely fortunate in the particular leadership which brought it into being and which continues to consolidate and advance its progress." (N.O.R.)

"A co-operative multi-purpose society in Punjab was registered in 1906 primarily to extend credit facilities and to promote thrift among its members. The society has a satisfactory record. It has recently been converted into a multi-purpose society with limited liability. Besides providing credit, the society meets the needs of the agriculturists in respect of artificial manure and daily requirements such as kerosene oil, vegetable oil. oilcake, etc. In 1950-1, its share capital, reserve fund and other funds amounted to Rs 5,735, Rs 2,471 and Rs 339 respectively. Deposits from members and non-members were Rs 29,884 and Rs 20,133 respectively. Loans advanced during the year aggregated Rs 5,637. There were no bad or doubtful debts. Investments in post office savings amounted to Rs 8,600, while fixed deposits with approved banks stood at Rs 46,627. The society meets its requirements out of its own funds and has not borrowed from the central bank. It has been working at a profit. The society's previous record as a single-purpose society may be said to point to its fitness for taking up multi-purpose functions; when it did take up these functions it was on such of them as were related to the more pressing economic needs of the members that it concentrated." (R.C.S.)

"A multi-purpose co-operative society was registered in 1939 in Orissa. On 31 January 1952 it had a membership of 1,278 individuals and a share capital of Rs 42,795.

Its reserve and other funds were nearly Rs 30,000. The society was able to secure fixed deposits to the extent of Rs 3.54 lakhs and savings deposits of Rs 4,000. In addition, it borrows from the central bank. A main activity—one which has hitherto been of special significance for the society's success—is the wholesale distribution of controlled goods such as sugar, yarn, wheat and cement; the total sales during the period from 1 July 1951 to 31 January 1952 amounted to Rs 2.15 lakhs. Further, the society acted as an agent of the Government for procurement of paddy; it was to some extent as a corollary to this that it also granted loans to members for raising crops, purchasing bullocks, etc. The loans were given against the pledge of standing crops and also against produce pledged with the society; outstandings amounted to Rs 1.42 lakhs on 30 June 1951." (A.C.D.)

"Society X in a Part A State is under the intensive supervision of an inspector and gets special attention from the development staff. It was started as early as June 1927. The village has a population of 1,285. Fifty-seven loans were outstanding for Rs 6,769 by the end of June 1951. The number of members was 114. It purchased manure for Rs 1,030. This society in a wet land area can certainly show better service, but the defect lies in a complacent body of directors satisfied with little service and the existence of a large number of petty owners and tenants who are not generally helped with co-operative credit." (N.O.R.)

"Certain credit societies maintain a good volume of transactions on account of the need for credit by middle and big landowners in areas irrigated by canals where commercial crops are raised. But yet they may not be serving all agriculturists. Society Y (in an irrigated area in a Part A State) . . . has a share capital of Rs 5,000 and a reserve fund of Rs 4,600. The population of the village is 6,000. It can have membership of at least 500. But it has a membership of only 161. It is a sugar-cane area which should consume more credit. Its average outstanding loan was Rs 252. It sold supplies for Rs 213 on an average per member. With the aid of an efficient staff, a society of this type has great scope for expansion. . . ." (N.O.R.)

"The Z Multi-purpose Co-operative Credit Society in a big village in a Part A State was registered on . . . Its promotion was largely due to the apprehensions of local traders regarding the effect on their business of the progress of a co-operative multi-purpose society in the locality which was showing some signs of success. It was not difficult to raise share capital or to attract deposits for society Z; in due course the society was also able to obtain from Government the authority to distribute foodgrains, sugar, kerosene and cloth. It started making good profits in the distribution work. But the taluka officer discovered, in one of his visits to the shop run by the society, that there was a shortage in the stock of foodgrains. Hence orders were passed to cancel the agency of the society to distribute foodgrains. It is also reported that in the meanwhile prices of *gur* had gone down and some members of the managing committee who were traders of *gur* got rid of their stocks by selling *gur* to the society and back-dating the entry. Consequently, the society incurred a loss.

When this came to the notice of the members, a general body meeting was held. Nothing could be proved against the members of the managing committee. Nevertheless, the non-trading members succeeded in electing a new managing committee with the merchant element greatly reduced. Resenting this action of the general body, the outgoing members of the managing committee induced some of the depositors to withdraw their deposits. This accounts for the sharp and sudden fall in the deposits of the society. It is believed that the present managing committee is not corrupt; but it is negligent and does not take much interest in the work of the society." (R.C.S.)

"In the Bombay State, since the distribution of controlled commodities was undertaken by a very large number of co-operative societies, in many cases they do raise local deposits to enable them to carry on their operations. These are in the nature of short-term deposits and are returned when the goods are sold. This system is particularly noticeable in the Belgaum District where many primary societies have been able to raise large funds in this manner." (O.R.)

"There is a society in a certain big village in the Bombay State registered with unlimited liability in the year . . . That was the beginning of a long-drawn-out dispute between the members because some of them took strong objection to the society having unlimited liability, especially as it had been established with the object of undertaking marketing. Ultimately, the dispute was settled by converting the society into one of limited liability. From the time it had been registered to the time that the dispute regarding the liability was settled, the society did not function." (R.C.S.)

"The object of a multi-purpose society in . . . village in Bijapur District, Bombay State, was not to provide credit to members but to undertake the marketing of agricultural produce and *saris*. But, as soon as it came into existence, it had to shoulder the responsibility of the distribution of foodgrains, sugar and kerosene. Naturally, its capital was too small to permit it to undertake the marketing work in addition. So from 1950-1 the society enlarged its functions and started to supply credit to its members as also iron ploughs on hire and ploughshares for sale. The society is most efficiently managed. Among the selected societies, this is one where the managing committee actually supervises the utilization of the loans advanced by the society to its members. The society is alive to the needs of the villagers and is functioning very actively." (R.C.S.)

III. CO-OPERATIVE FARMING AND IRRIGATION SOCIETIES

"A co-operative farming society has been started in the Karnal District (Punjab). The society, with ex-servicemen as members, is given 800 acres of scrub land on lease by the Punjab Government under the Land Utilization Act. With the help of two tractors and two tube-wells, this land is almost wholly cleared and levelled. Besides, the society also owns a plot of 64 acres in which sugar-cane is raised.

"It is impossible not to be impressed by the enthusiasm of the young farmers. They work 12 to 16 hours a day and in the eyes of the peasants of the nearby villages who still use orthodox methods on small plots of land, have achieved a miracle in transforming a wild stretch of waste land into green cultivated fields." (The *Statesman*, 4 August 1952.)

" A co-operative farming society was registered in 1948 in Bombay. It had on 30 June 1953 a paid-up share capital of Rs 24,600. The Government had given a loan of Rs 11,700 towards purchase of 2 tractors, together with a subsidy of Rs 8,160 for construction of godowns, managerial cost, etc. The society succeeded in bringing under cultivation 200 acres out of its 205 acres. Financial accommodation was provided by the central co-operative bank. The society earned a net profit of Rs 19,105 during 1952-3." (A.C.D.)

" A co-operative farming society was registered in 1951 in Punjab. It had 23 members and its area covered the 2 villages of . . . and . . . which are closely situated. Lands measuring about 300 acres have been leased by the members for a period of 20 years for being cultivated jointly. The central co-operative bank has advanced a loan of Rs 25,000 for digging a well and purchasing bullocks. The society owns a tractor and has sunk two tube-wells. Sugar-cane and wheat are the principal crops grown. During its first year of operation, the society suffered a loss of Rs 9,381." (A.C.D.)

" A lift-irrigation society was registered in Saurashtra in 1948. It had 53 members and a paid-up share capital of Rs 17,400. The Government have given a loan of Rs 80,000 repayable in 5 annual instalments. The society has erected a power-house for enabling its members to lift water from their wells by electric power. The cost of irrigation has thus been reduced from Rs 16 to Rs 4 per acre. About 80 farmers are reported to have been taking advantage of the facilities and to have benefited considerably." (A.C.D.)

" A co-operative farming society in Madhya Pradesh was registered in 1949. There are only 11 members in the society of whom even fewer actually work on the farm. Its paid-up share capital was Rs 1,100 at the close of 1950-1. In the first two years of its operation, the society suffered losses but in 1950-1 it made a profit of Rs 8,952." (A.C.D.)

" A co-operative farming society in the Baroda District, Bombay State, was registered in 1950 and had a membership of 23. The owned funds of the society at the end of June 1953 amounted to over Rs 32,000. Government had advanced Rs 27,000 for the construction of cattle-sheds, godowns, etc., and for purchase of tractors. A subsidy of Rs 12,390 was also given for purchase of seed, manure and construction of godown. The salary of the manager was also paid by the Government. Cash credit facilities were provided by the central bank." (A.C.D.)

IV. CO-OPERATIVE MARKETING OR DISTRIBUTION SOCIETIES: PRIMARY AND TALUKA LEVELS

"Registered in 1917, the Gadag Cotton Sale Society in the Bombay State is one of the biggest societies of its kind in India. On 30 June 1952 it had 94 societies and 2,838 individuals as members. Its paid-up share capital amounted to Rs 45,000, while its reserve and other funds were Rs 2.42 lakhs. The society accepts deposits from its members and such deposits on 30 June 1952 amounted to Rs 5.51 lakhs. The Karnatak Central Co-operative Bank has provided cash credit to the society and has also advanced loans against re-pledge of produce of members. Such loans amounted to Rs 6 lakhs. During 1950-1, 40,408 *dhokras* of the value of nearly Rs 1 crore were sold on which a commission of Rs 58,460 was earned. Almost 50 per cent of the *kapas* brought to the Gadag market is sold through the society. It has been paying regularly a dividend of 6¼ per cent on the shares.

"The society is the sole agent of the Government for the distribution of seeds in three talukas. To be an effective seller of the best types of seeds, the society keeps in close touch with the co-operative ginning society which is situated in the same compound and in which it holds one-third of the share capital. In this factory, *kapas* is ginned under the joint supervision of the sale society and an officer of the Agricultural Department. The distribution of the superior type of seeds has made the society extremely popular with the agriculturists. The society advances loans to members on the pledge of their produce to the extent of 75 per cent of the market price. It charges commission at Rs 3 per *nag* (48 maunds of 28 lb. each) of which one-half is recovered from the buyer. Other incidental expenses for insurance, grading, etc., come to about Rs 3 per *nag*. The society grants a rebate of Rs 2 per *nag* to members. The producers are assured of a just price because *kapas* is sold after proper grading. Auctions are held eight or nine times in a season. One great advantage that the society offers to the cultivators is that it provides a forum where the producer meets the merchant on equal terms. Agents of mills and merchants from all parts of the country congregate here. They are drawn to it because they are sure of getting cotton grown from pure seeds. They like the society because it offers for sale different varieties of cotton carefully selected and graded and in sufficiently large quantities." (A.C.D.)

"The Salem Co-operative Marketing Society in the Madras State, was registered in 1936. Its membership is open to primary credit societies, individual agriculturists and to traders. On 30 June 1952 its membership consisted of 126 credit societies, 11,219 agriculturists and 731 traders. The traders have no vote and are not entitled to serve on the directorate. Its paid-up share capital amounted to Rs 38,000 on 30 June 1952. The society enjoyed overdraft accommodation of Rs 1 lakh from the Salem Central Bank and had taken, in addition, a loan of Rs 70,000 for handling the distribution of chemical fertilizers, iron and steel. The society deals chiefly in groundnut and cotton. The sale of these commodities is effected through a secret tender system according to which intending buyers assemble in the precincts of the society at an appointed time, usually twice every day during the groundnut season and twice a week during the cotton season. Necessary particulars about stock are supplied to them and the merchants are

allowed to inspect them. Every intending buyer then has to quote his rate for each stock without consulting the others and to put his offer in a sealed tender box, specially kept for the purpose. The box is then opened in the presence of both buyers and sellers and the highest bids are recorded. The stocks are sold to the highest bidders only after receiving the consent of sellers. If the price is not acceptable to the grower, he can store his produce in the society's godowns. During 1951-2 the sales of groundnut and cotton amounted to Rs 16.15 lakhs and Rs 8.94 lakhs respectively. Advances are given to members on the pledge of produce up to 60 per cent of the market value and are adjusted against the sale proceeds. Such advances during the year amounted to Rs 2.52 lakhs. Buyers are required to make cash payment, but in the case of traders approved by the directors a period of not more than ten days is allowed. The entire business is done on a commission basis. The society owns two spacious rat-proof godowns constructed with the help of a Government loan of Rs 30,000 and a free grant of Rs 10,000.

"The distribution of compost-manure is undertaken by the society and during 1951-2 the sales amounted to Rs 32,000. Chemical manures and agricultural implements sold during the year amounted to Rs 52,000 and Rs 37,000 respectively. With a view to improving the production of good varieties of groundnut, the society sold groundnut seed of the value of about Rs 4,000." (A.C.D.)

"The Tiruchengode Co-operative Marketing Society (Salem District, Madras State) was registered in 1930. Its membership is open to primary credit societies, individual agriculturists and merchants. Its paid-up share capital and reserves amounted to Rs 26,980 and Rs 25,658 respectively on 30 June 1952. The Salem Central Co-operative Bank had sanctioned it considerable overdraft accommodation. The society markets groundnut and cotton and the value of produce handled by it during the year amounted to Rs 14.68 lakhs. The entire business is done on a commission basis and the sales are effected by tender system at the headquarters of the society and by open auction at its branch at Konganapuram. Loans and advances are made to members on the pledge of produce at the rate of 60 per cent of the market value.

"The controlled credit scheme is in operation in the area of this society. The co-operative union selects credit societies to work the scheme each year and intimates the central co-operative bank the accommodation that may be needed by them. The central bank sanctions to each society cash credits in advance for the season. Each society is supplied with a cheque-book and when a member wants a loan the managing committee of the society can sanction an amount not exceeding Rs 30 per acre for the cultivation of groundnut and cotton. The cheque is drawn and sent to the central bank along with an advice slip in triplicate showing the name of the cultivator, the area of land to be cultivated and the nature of the crop. After making payment of the cheque the central bank sends one copy of the statement to the marketing society which maintains a loan account for each society with the help of these slips. The cultivator is expected to sell his produce through the society and when this is done the central bank's loan outstanding against him is deducted from the sale proceeds and the balance is given to him. The society then remits the amount to the central bank for being adjusted against his loan account. In 1951-2 the co-operative union had selected 15 societies for the operation

of this scheme and cash credit loans amounting to Rs 63,000 were advanced for groundnut. Of these, Rs 28,000 were realized through the sale of members' produce. The society has constructed a godown at a cost of Rs 23,650 towards which it has secured a Government loan of Rs 15,000 payable in 20 years and a donation of Rs 5,000 from the District Economic Council. In addition to this it has hired some other godowns also." (A.C.D.)

" The Jalgaon Co-operative Fruits Sale Society, Bombay State, was registered in 1939. On 30 June 1952 its paid-up share capital and reserves amounted to Rs 0.26 lakh and Rs 1.73 lakhs respectively. The Bombay Provincial Co-operative Marketing Society had deposited Rs 60,000 as security for wagon-loads of plantains dispatched to it for sale. The president of the sale society also had deposited Rs 10,000. The society handles plantains, oranges and vegetables and dispatches them to Bombay and up-country markets. The Provincial Marketing Society acts as its agent both at Bombay and Delhi. During 1951-2 fruits worth Rs 7 lakhs were sold, of which plantains accounted for Rs 5.50 lakhs. The entire business is done on a commission basis. The society advances money to members for cultivation of plantains. In 1951-2 such loans were advanced to 227 members and amounted to Rs 1.25 lakhs. In addition to this, the society distributes seeds and manure to members and non-members." (A.C.D.)

" The Bhagwanpur-Desua Cane-growers' Co-operative Society (Bihar) was registered in 1939. At the end of 1950-1 it had a membership of 309 cane-growers. It supplies the entire cane grown in the village to the sugar factory by its having enlisted more than 66 per cent of the cane-growers of the village. During 1950-1 the society supplied nearly 1,68,000 maunds of sugar-cane to the sugar factory and earned a commission of Rs 6,551. It also supplied seeds and manure worth Rs 15,000 to the members. This business is done out of the development fund which has been created by a levy of 4½ pies per maund on the cane delivered. During the year, it also supplied small quantities of consumer goods to its members." (A.C.D.)

" The Coorg Provincial Cardamom Co-operative Marketing Society was registered in 1939 with the object of providing a fair market for cardamom and giving financial assistance to cardamom-growers. The members bring cardamom to the society for being sold by auction to merchants at rates approved by them. The society also gives loans and advances to members and such loans during 1950-1 amounted to Rs 2.10 lakhs. It had 376 members and its share capital and deposits were Rs 8,145 and Rs 19,000. Loans from the Provincial Bank amounted to Rs 18,000. The sales of cardamom during the year through the society amounted to nearly 1,947 maunds." (A.C.D.)

" A fruit-growers' society in a Part A State was registered in 1937 with the object of marketing fruits of members and of providing them with production finance. On 31 August 1952 it had 1,795 members. Its share capital, reserve and other funds amounted to Rs 44,523, Rs 10,781 and Rs 2,26,719 respectively. Its borrowings from the central

bank amounted to Rs 94,693. Loans and advances to growers totalled Rs 2,02,324; the entire amount has become overdue. Once a flourishing and prosperous society, it fell on evil days because of the continuance of drought for some years in the particular area. This destroyed a large number of trees of the growers and increased the cost of maintaining others. Moreover, during its prosperous years the society had indulged in a certain amount of indiscriminate financing of its members. This resulted in an appreciable proportion of its dues becoming frozen. During the period 1943-8 the society did considerable business by undertaking military contracts. Its present business is much reduced." (A.C.D.)

" A co-operative marketing society in a Part B State was registered more than 15 years ago. Its area of operation theoretically extends over the whole of a prosperous canal area. But as on 30 June 1951 it had a membership of only 27, none of them a society, i.e., all of them individual members. The paid-up share capital and deposits amounted to less than Rs 5,000 and about Rs 12,500 respectively. The value of sales of goods belonging to members and non-members slightly exceeded Rs 2 lakhs and the society earned a commission of just over Rs 3,000. All the members of the society are related to one another and no outsider has ever been allowed to become a member. The president and the managing committee are reported to have been responsible for several contraventions of the by-laws of the society. Loans have been advanced to non-members, meetings of the committee are not held regularly, returns are not submitted and several registers are incomplete. It is not an exaggeration to say that the society is being run more or less as a private ' shop ' and not as a co-operative society governed by the Co-operative Societies' Act." (A.C.D.)

" The Godavari Pravara Canal Co-operative Purchase and Sale Society in the Bombay State was registered in 1932 with an area of operation extending to three talukas. On 30 June 1952 it had 731 individuals and 91 societies as members. Its paid-up share capital and reserves amounted to Rs 56,000 and Rs 2.50 lakhs respectively. The society has arrangements for borrowing from the Bombay State Co-operative Bank and such borrowings amounted to Rs 5.05 lakhs on 30 June 1952. It supplies seeds, manures and agricultural implements to cultivators, markets their produce and advances loans against the security of agricultural produce. The principal commodity marketed through the society is jaggery and 50 per cent of the members of societies affiliated to it are reported to be marketing their produce through it. Advances against jaggery brought for sale to it amounted to Rs 31 lakhs during the year 1951-2 of which Rs 7.71 lakhs were outstanding at the close of the year. The rate of interest charged on these loans was $7\frac{13}{16}$ per cent. *Gur* is sold to merchants and the cultivator is paid from the price recovered from the purchaser. During 1951-2 it sold 3,24,926 lumps of *gur* valued at Rs 24.91 lakhs. It also distributed iron, steel, cement, agricultural implements, cloth and manure mixtures. The total value of these sales during 1951-2 was Rs 9.94 lakhs. It earned a net profit of Rs 24,267 during the year." (A.C.D.)

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" A co-operative development federation in a Part A State which, however, is not a federation at the central or apex level, was registered in 1948 with several objects: for

example, of giving guidance to affiliated unions and societies for improving and developing cultivation of crops, of making suitable arrangements for the supply of improved seeds, fertilizers, manures, implements, etc., and of making arrangements for the sale of agricultural and industrial products. Although the by-laws permit activities connected with marketing of agricultural produce, practically nothing has been done by the federation in that direction. Its main activity is purchase and sale of cloth and yarn. During 1952-3 it sold cloth and yarn worth about Rs 10.5 lakhs and Rs 4 lakhs respectively. The federation also deals in forest products like charcoal, timber, wood, etc. In 1952-3 the sales of forest products amounted to somewhat over Rs 30,000. The federation also sells sugar and foodgrains and is an agent for the distribution of fertilizers. The slump in cloth and yarn prices hit the federation severely and it incurred a loss of over half a lakh of rupees in 1952-3." (A.C.D.)

"The Amravati Taluk Co-operative Agricultural Association (Madhya Pradesh) was registered with the following main objects:

1. keeping and hiring machines and implements to agriculturists;
2. marketing of agricultural produce;
3. grading agricultural produce; and
4. supply of consumer and producer goods etc.

"Its area of operation is confined to one tehsil only. On 30 June 1951 its share capital and reserve and other funds amounted to Rs 65,201 and Rs 39,893 respectively. It had received financial accommodation from the Madhya Pradesh Co-operative Bank amounting to Rs 3.31 lakhs on 30 June 1951. Besides this, temporary loans from members were also taken and such loans amounted to Rs 1.55 lakhs. Throughout the period of controls, the main business of the association was supply of cloth and sugar. In 1950-1 sales of cloth and sugar amounted to about Rs 24 lakhs and Rs 9 lakhs respectively. During the same period, agricultural implements and fertilizers of the value of Rs 1.06 lakhs were sold

"The association has recently taken up marketing of cotton under a cotton pool scheme supervised by the Registrar. During the year 1952-3, 26 members and 141 non-members brought cotton to the pools which were auctioned to merchants. Six such auctions were held during the year and the total value of the sales was nearly Rs 5 lakhs. The association granted loans amounting to Rs 50,000 at 6 per cent to agriculturists against cotton brought into the pool." (A.C.D.)

"The Shetkari Sahakari Sangh, Kolhapur (Bombay State), has got a well-built godown registered as a licensed warehouse under the Bombay Warehouses Act. Jaggery is the only produce so far brought to the warehouse. The total accommodation available is that sufficient for 16,000 lumps of jaggery each weighing 30 seers. Lumps when brought for storage are weighed by licensed weighmen and graded. A receipt showing the weight and the value as per market rates on that date is passed against which producers obtain

advances from the central bank and the Sangh. All the goods are fully insured by the Sangh. The business, however, has been started only recently." (A.C.D.)

" The X Co-operative Wholesale Society functioning in a Part B State was registered in 1929. The paid-up capital stood at Rs 9,560 contributed by 162 societies. One of the objects of the society is to take up on hire or otherwise godowns for the purpose of stocking goods. The society is marketing hill and agricultural produce such as pepper, turmeric, copra and dried ginger. The work is done more or less on a commission basis. The system of storage is defective. Costly goods such as pepper are stored in *kutcha* sheds liable to destruction by fire and insects. The godowns are insured, but not for the full value of the stocks. The stock of goods stored in the godowns does not agree with the stock register. The stock register is not posted up to date." (A.C.D.)

" The Agency Marketing Society at Tikaballi (Phulbani District, Orissa) was registered in 1947. The members of the society belong to an aboriginal tribe and Government had to make special efforts to organize and strengthen it. It sells minor forest produce, mainly turmeric, collected by its members and acts as a procuring agent of the Provincial Marketing Society which has the lease of collecting minor forest produce. The society also runs a store and serves as a procuring agent for paddy for the Government. It has received a subsidy of about Rs 32,000 from Government for the construction of godowns. The services of the staff are also provided free of cost by the Government to the society. The society appears to have been rendering useful service to the aboriginals; it sold goods of the value of Rs 1.96 lakhs during 1950-1." (A.C.D.)

" Membership in these societies [three marketing societies in a Part A State] is open to societies and to individuals over the age of 18. This means that even merchants can come in and so far as my information goes, some merchants are there already in some of the societies; loans against the pledge of produce are given only to members and it is likely that some merchants have become members of these societies to take advantage of the facility." (A.C.D.)

" It is possible that traders may get into the marketing societies as members; for example, in the Y Co-operative Marketing Society [in a Part A State] some traders became members and tried to export onions through the marketing society. But eventually these traders were removed from membership." (O.R.)

" . . . To produce a crop [the areca crop in the Malnad] one will have to spend a good amount of money, more than what the raising of paddy, millets or such other ordinary crops requires and more money than an ordinary owner of the garden has with him. This money he borrows from the *mandi sowcar* on the understanding that he sells the crops to or rather through him. The rate of interest charged ranges between 12

per cent and 18 per cent though, thanks to the operations of the Malnad Areca Marketing Society, it is learnt that it has now been considerably brought down. Very often, the manure and spraying chemicals are also supplied by the *mandi sowcar* and in some interior places such as Sagar, the grower has to buy, as additional condition of the loan, his other requirements also, such as cloth, salt, kerosene, etc., from the *sowcar*, it would be easy to imagine at what rates. Next, after the crops are gathered and cured, the grower has to carry them long miles (and communications are very bad in the Malnad) to the *sowcar* for marketing. The *sowcar* receives them and keeps them only as an agent or broker for the grower, but is only too willing to make further advances to the grower against the stock. In fact, this is the chain which the grower is bound and held by. The conditions of sale may best be described in the words of the Royal Commission on Agriculture who, enquiring generally into the marketing arrangements of agricultural produce in India, have admirably summarized the position as under:

> 'From all provinces we received complaints of the disabilities under which the cultivator labours in selling his produce in markets as at present organized. It was stated that scales and weights and measures were manipulated against him, a practice which is often rendered easier by the absence of standardized weights and measures and of any system of regular inspection. Deductions which fall entirely on him but against which he has no effective means of protest are made in most markets for religious and charitable purposes and for other objects. Large 'samples' of his produce are taken for which he is not paid even when no sale is effected. Bargains between the agent who acts for him and the one who negotiates for the purchaser are made secretly under a cloth and he remains in ignorance of what is happening. The broker whom he is compelled to employ in the larger markets is more inclined to favour the purchaser with whom he is brought into daily contact than the seller whom he only sees very occasionally.'

"While this description applies very accurately to the areca trade as practised by the Malnad *mandi* owners, additional malpractices may also be quoted. . . . Deductions are made to provide margins for shrinkage, errors in weighing, cost of weighing, etc. The correct market rates are never quoted to the grower and usually the goods are transferred to the *sowcar* himself under a fictitious name and a fictitious sale when quotations are low and it is this quotation that is given to the grower with an ultimatum to authorize the sale at that rate or take back the stock after returning the advance and the interest thereon. One can realize what option this gives to the grower. It was in order to remedy this state of affairs that the Malnad Areca Marketing Co-operative Society was started in the year 1939. . . . The membership of the society is open to all the areca-growers of the Malnad District. . . . Since its inception the society has been trying to improve the economic condition of the areca-growers in Malnad in various ways, apart from efforts to provide efficient marketing service. The growers are offered opportunities of effecting savings, what with the various facilities granted such as supply of cheap credit, low commission charges with facilities of rebates, compensation for dust and excess weight, etc." (*More Typical Non-Credit Societies in India*, Reserve Bank of India, pp. 8-13.)

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"The Bagalkot Co-operative Purchase and Sale Union in Bijapur, Bombay, helps its members in obtaining on credit improved varieties of seed. It also gives them financial

assistance at the time of harvesting. Besides, it is able to obtain a better price for their produce as it pools, grades and then sells their produce in big lots. The society has in addition put into operation a scheme for giving bonus to cultivators who sell their agricultural produce through the society. Every year, a part of the profit is kept aside for this purpose. . . . The efficiency of the society is commendable. . . . The services of the manager have been lent to the society by the Co-operative Department." (R.C.S.)

"A certain society (in a Part A State) which was once doing flourishing business, later on, due to reportedly indiscriminate lending and misappropriation, began to experience shortage of cash resources and had to curtail its advances. Consequently, both its business and reputation waned. Enquiries were instituted and the amount was ordered to be recovered. Thereafter, to improve the management of the society the Co-operative Department deputed a supervisor to act as the secretary of the society. . . . Since his appointment . . . it is seen that the society is making all-round progress." (R.C.S.)

" . . . The new system of rationing through co-operatives has provided many people with opportunities for personal gain. The author heard of several localities where there had been corruption; for instance, paddy had been procured and paid for by the co-operative, but the stock never reached the storehouse, being pocketed, with the price, *en route*. Many co-operatives find it hard to operate because of dissension among the members. These reports augur ill for the Government's plan to put more powers into the hands of local bodies, such as the village *panchayats*. Such schemes seem to the observer to be over-ambitious in giving authority to those who are unused to it; they follow the idealistic Congress dream of a country of 'village republics' with decentralized administration rather too closely to be at present practicable. But, on the other hand, there is much to be said in favour of Government's pressing on with such schemes. The lessons learnt in the villages and *firkas* of local administration and rural development will have been learnt the hard way, but learnt in the best school of experience. It is only to be hoped that corruption and incompetence do not cause the policies to founder before they attain this end." (*Land and Society in Malabar* by Adrian C. Mayer, Oxford University Press, 1952, pp. 146-7.)

"There are 12 grain dealers' co-operative associations in the Bhatinda District (PEPSU). These associations, though registered under the Co-operative Societies' Act, are in fact organizations of traders or middlemen rather than of producers. Their main objects are (i) to purchase and market foodgrains and other essential commodities on behalf of their members and the Government and (ii) to deal with the import and export of foodgrains and other foodstuffs to and from the *mandi* and purchasing centres, for procurement schemes of the Government, as agents of the Central Grain Dealers' Syndicate at Patiala with which they are affiliated. The Central Grain Dealers' Syndicate has about 50 branches affiliated to it, in different producing centres and important towns of PEPSU.

"The membership of a grain dealers' co-operative association is open only to licensed grain dealers of the *mandi* where the association is working. Co-operative societies or agriculturists are not members of these associations as they are not licensed grain dealers. The members usually work as *kachha adatyas*, while the association as representative of the Syndicate, acts as a *pucca adatya*.

"Co-operative circles in PEPSU are of the view that it is not fair to call these associations 'co-operative associations' and to register them under the Co-operative Societies' Act. The model by-laws of the associations are stated to be defective." (R.C.S.)

"[Two or three very wealthy men in a certain district of a Part A State] constituted themselves into a society . . . and were entrusted with procurement for the whole district. The society then is a device for rich and exploiting persons who cannot ordinarily get licence for wholesale business to get it in this manner." (N.O.R.)

"A member of a certain co-operative store of a Part A State could not get a copy of audit certificate from the concerned officer of the Co-operative Department, who asked him to go to the secretary, who, however, refused. The general body of this store passed a resolution supported by more than 2,500 members to have more than 10 additional directors as the existing 5 were figure-heads. The officer of the Co-operative Department took no action. He had two of his sons employed in the store." (N.O.R.)

"In a certain Part A State, villages which could not collect a large amount of share capital were denied the benefit of a store as if share capital had anything to do with its success! Primary stores and wholesale stores were asked to select as directors those who paid Rs 100 and above and Rs 500 and above as paid-up share capital. Zamindars who had little to do with these stores were nominated as their directors in certain districts. Certain articles were handed over in these stores to private traders to be sold on a commission basis. In some stores, it was made a condition of sale of coffee seeds that some other unsaleable commodities should be purchased along with them." (N.O.R.)

V. CO-OPERATIVE MARKETING OR DISTRIBUTION SOCIETIES: REGIONAL AND APEX LEVELS

"The Southern Gujarat Co-operative Cotton Sale and Ginning Societies Union, Surat (Bombay State), was organized in 1930 with the main object of facilitating the sale of cotton of the cotton sale societies operating in Southern Gujarat. The union has its headquarters at Surat which is the main cotton market in the area. Its membership is open to all societies undertaking sale of cotton and to ginning and pressing societies operating in the area. At the end of 1950-1, 43 societies were affiliated to the union of which 31 were cotton sale societies, 5 ginning and pressing societies and 7 other types of societies. Nearly one-fourth of the cotton produced in the area is sold through the union which has succeeded in establishing direct contacts with big

buyers and textile mills. It supervises and guides the working of the affiliated societies and also arranges for insurance on behalf of the societies." (A.C.D.)

"The Madhya Pradesh Co-operative Marketing Society was registered in 1948 to serve as an apex institution for the marketing and distribution societies of the State. On 30 June 1953 it had 333 societies and 5 individuals as its members. To the share capital of Rs 4.26 lakhs the Government of Madhya Pradesh contributed a sum of Rs 2.05 lakhs. Its reserve and other funds amounted to Rs 5.43 lakhs. The working capital included a sum of Rs 10 lakhs out of Rs 20 lakhs initially given by the Madhya Pradesh Government for facilitating the working of the society. Until 1951-2 the main business of the society consisted of distribution of controlled commodities like sugar and cloth. In November 1952 the business in sugar came to a more or less abrupt end. No fresh purchases of cloth were made during 1952-3. The society had, therefore, to find out new avenues for its funds. In 1952-3 the society was appointed sole distributor of Sindri fertilizers and it succeeded in selling about 7,000 tons of the value of Rs 26,32,703 on which it earned a commission of Rs 84,638. Recently it has taken up marketing of improved varieties of cotton through tehsil agricultural associations in certain parts of the State. For this purpose, it has been granted an accommodation of Rs 15 lakhs by the Reserve Bank of India. It has also undertaken marketing of rice, pulses, etc., in conjunction with affiliated societies; and as seller of some of these commodities it has entered into agreements with the railways and a few other big establishments. The total sales excluding those of fertilizers during 1952-3 amounted to Rs 27.45 lakhs. It earned a net profit of Rs 1.18 lakhs. It has been declaring dividends at 6 per cent. The Registrar, Co-operative Societies, is the president and the Government have deputed one assistant registrar to serve as its secretary." (A.C.D.)

"The Uttar Pradesh Development and Marketing Federation was started during the year 1941-2 essentially as a marketing organization. It has later so enlarged its objects that theoretically, it can now undertake almost all consumers' and producers' activities, including distribution of cloth, fertilizers, and manures, improving the supply and quality of milch and draught animals, establishment of agricultural farms, dairies, issue of loans to members for financing their legitimate business, arranging for transport, etc. So far, the most important activity of the federation has been the distribution of cloth, wholesale and retail, throughout Uttar Pradesh. Its sales of cloth during the days of control were very substantial, but have since sharply gone down. There have also been appreciable losses on this account, a feature common to many co-operative societies which had been encouraged by different State Governments to take up distribution work at a time when it seemed that controls would remain for a long time to come.

"Besides dealing in cloth, the federation has undertaken a wide variety of business in articles such as tea, fertilizers, typewriters, radios, etc. It also finances the affiliated district development federations. The latter, besides doing business in cloth, undertakes various activities of which special mention may be made of the construction of tube-wells and of the building and running of seed-stores and, both in connexion with the

latter and as a business by itself, the working of brick-kilns. Stocks of improved seed have been passed on to the federation by the State Government; the seed is distributed through nearly 1,000 seed-unions which are supervised directly by the Registrar of Co-operative Societies. The federation also makes cash loans to co-operative farming societies and provides credit in other contexts as well.

"The paid-up share capital of the federation on 30 June 1953 amounted to Rs 11.72 lakhs. Its reserve and other funds amounted to Rs 80.58 lakhs. The total volume of its sales during the year 1952-3 was Rs 170.19 lakhs of which cloth and yarn accounted for Rs 164.87 lakhs.

"Two important points to notice about this federation and certain others of the type in other States are (1) the undertaking of commercial business (e.g., typewriters and radios) which by no stretch of imagination can be called co-operative, and (2) the encroachment on credit functions which more properly belong to the co-operative banking structure. The absence of a proper widespread base of co-operative agricultural marketing is one of the reasons usually responsible for the diversion of the funds and energies of the apex institutions to different kinds of commercial ventures: just as the absence of an adequate network of co-operative credit societies together with really strong central banks is partly responsible for the fact that these development federations, apex marketing societies, etc., tend themselves to finance the activities in which they happen to be interested." (A.C.D.)

VI. CO-OPERATIVE PROCESSING SOCIETIES

"In 1933, the press-owners of Surat formed an association and decided to raise the rate for pressing cotton. The cotton sale societies of Chorasi and Olpad talukas in Surat District being refused by the press-owners to have their cotton pressed at the old rates, were forced to organize a pressing society[1] and appointed a sub-committee for the purpose. The task of the sub-committee was not an easy one. Hardly two months were left for the cotton season to begin and during this short period, the society had to be registered, funds raised, machinery obtained and installed and the press put into working order. It was a herculean task and the press-owners of Surat were sure that it was beyond the range of possibility, particularly of ordinary farmers. However, the challenge was accepted by the sub-committee. Even without waiting for the society to be registered, funds to the extent of Rs 1 lakh were raised within a fortnight. A piece of land measuring four acres was taken on lease for 50 years for the factory. Construction of buildings was started. Machinery for the factory was purchased and installed and the whole factory was put in working order before the season started. The members of the sub-committee worked day and night, and remained at their post for all the time, nay, even used to sleep at the site of the factory. To the surprise of all and especially of the press-owners of Surat, the impossible was achieved. It was a triumph of co-operative effort in its best sense. The miracle was accomplished through the dogged efforts of the people concerned and was not due to any patronage from Government or other quarters. The press-owners of Surat lost for all time the business of pressing about eight to ten thousand bales every year and had further to agree to accept fair rates for pressing cotton even from other farmers. The society has served

[1] The Farmers' Co-operative Cotton Ginning and Pressing Society.

its members well by pressing their cotton at a fair and reasonable rate and also offering them rebate out of profits at the end of each year on the basis of cotton pressed with the society. . . ." (*Some Typical Non-Credit Societies in India*, Reserve Bank of India, pp. 1-2.)

" The Pravara Sahakari Sakhar Karkhana at Pravaranagar, Ahmednagar District, Bombay State, was organized in December 1948 by sugar-cane cultivators in the Pravara Canal area in the Ahmednagar District with the object of starting a sugar factory in which would be used the sugar-cane which they themselves grew. Two important items of assistance were a contribution of Rs 6 lakhs by the State Government towards the share capital of the society, and a loan from the Industrial Finance Corporation to the extent of Rs 20 lakhs for buying machinery.

"While some of this assistance was yet to be received, the State Co-operative Bank sanctioned a temporary loan of Rs 20 lakhs to enable the society to install the machinery in time for the factory to get into production without losing any part of the crushing season. Since then, the State Co-operative Bank has also been granting accommodation to the society for operational expenses; the operative credit limit was Rs 19 lakhs on 30 November 1952. As on 30 June 1953 the society had 537 producer members and 20 other members, including 5 co-operative societies, on its roll. During the year 1952-3 the society crushed 57,722 tons of sugar-cane belonging to members and 2,588 tons belonging to non-members. The quantity of sugar produced was 64,362 bags.

" The society provides crop loans to such of its members as are not separately financed by co-operative credit societies. Crop loans are subject to the following maxima per acre: Rs 800 for *adsali* cane (one and a half year crop), Rs 700 for plant cane (one year crop), and Rs 600 for first *ratoon* cane (one year crop). The amount lent in cash is limited to Rs 100 per acre. The rest is given in kind as follows:

Adsali cane	. .	40 bags of groundnut cake and a bag of sulphate
Suru cane	. .	32 bags of groundnut cake and a bag of sulphate
Khodva cane	. .	26 bags of groundnut cake and a bag of sulphate

The crop finance thus made available amounted to more than Rs 4.5 lakhs during 1952-3. The society has constituted a development fund out of its profits. This fund is mainly utilized for giving medium-term loans to members for purchase of pumping sets, deepening of wells, etc. The society itself has purchased a tractor, ploughs, dust-guns, spray pumps, etc., for being hired out to members. In accordance with a plan of development which the society has worked out, it is intended to increase the area under *adsali* cane until 50 per cent of the production is of this variety.

"Certain initial factors which contributed to the successful establishment of this pioneering co-operative enterprise of agricultural producers have already been mentioned. These were: (i) the financial participation by the State which was of great importance at the initial stage of establishing the factory, (ii) the availability of adequate long-term credit from the Industrial Finance Corporation and of assured short-term credit from the State Co-operative Bank, both of them State-sponsored and State-partnered

institutions. (The Bombay State Co-operative Bank alone among the *older* state co-operative banks has been reorganized on the basis of the State Government owning a large part of the share capital.)" (A.C.D.)

VII. CO-OPERATIVE MILK SUPPLY AND DAIRYING SOCIETIES

"Registered in 1927 as a central organization for the primary societies functioning round about Madras City, the Madras Co-operative Milk Supply Union steadily developed its activities and undertook schemes, with Government assistance, for increasing the production and supply of milk to Madras City. As on 1 January 1953 there were 130 such feeder societies which had contributed Rs 1.40 lakhs towards its share capital. The union collects milk from its feeder societies and transports it to its factory at Ayanavaram, in trucks. The milk is pasteurized in the factory and then distributed to the civil population partly by house delivery and partly through numerous depots opened in important centres of the city. The daily production of milk handled by the union is about 8,000 Madras measures. It is estimated that about one-fifth of the demand of the city is met by the union. The success of this union is mainly attributable to the direct assistance given by the State Government and to many complementary schemes sponsored by it for increasing the production of milk in the State. Thus the Government has recently sanctioned a scheme for augmenting the supply of milk to Madras City by 5,000 lb. more a day by expansion of the union's activities. The scheme involves a non-recurring expenditure of Rs 1.11 lakhs and a recurring expenditure of Rs 20,500. This sanction includes provision for an up-to-date pasteurization plant and a laboratory for testing milk. Under this scheme, one sub-registrar and three senior inspectors have been entrusted with the task of organizing societies at new centres. The State Government has also sanctioned a staff consisting of one sub-registrar and 12 inspectors for the supervision of milk societies and for augmenting milk production." (A.C.D.)

"The Kaira District Co-operative Milk Producers' Union was registered in 1946 as a result of a scheme launched by the Government of Bombay. Under this scheme, milk produced in the Anand area is arranged to be transported to the City of Bombay and distributed there. The collection of milk and its processing were in the past done by milk contractors and private dairies, and the benefit to the producers themselves was relatively little. It was against this background that the need arose to form village milk producers' co-operative societies, to organize the collection of milk from each society and to arrange for pasteurization of the milk before its dispatch to Bombay. The union at Anand has installed a processing plant for effecting the pasteurization. The area of operation of the union extends to 60 villages within a radius of 12 miles. On 30 June 1952 it had 58 societies and 61 individuals as members. Its paid-up share capital and reserve and other funds amounted to Rs 1.19 lakhs and Rs 0.92 lakhs respectively. The union dispatches on an average 60,000 lb. of pasteurized milk daily to Bombay. The total value of milk sold during 1951-2 amounted to Rs 47.60 lakhs. The union maintains trucks to collect milk directly from the village societies. The milk is purchased at rates fixed by the Government of Bombay on the basis of

butter-fat content, so that adulteration does not pay. Transport to Bombay is by special insulated wagons for which the Government of Bombay has made arrangements with the railways. The Government pays the union a commission of Rs 5-12 per Bengal maund to cover the cost of operations. The union earned during the period a net profit of Rs 5.91 lakhs. The major part of this is paid back to the village societies as 'patronage' dividend. The village societies in their turn pay bonus to their members. In addition to the collection of milk, the union has, with the aid of a Government grant, undertaken several activities such as construction of cattle-sheds, setting up of pumps on wells, and maintenance of a mobile veterinary dispensary." (A.C.D.)

"The Kamadhenu Co-operative Bank, Bangalore City, Mysore, was registered as a credit society in 1928 but switched over to milk supply in 1938. At the end of 1950-1 it had a membership of 428 milkmen. Its share capital and reserves amounted to Rs 10,629 and Rs 15,000 respectively. During June 1951 it supplied about 50,000 pints of milk to four hospitals in the city and about 40,000 pints in May 1951 to individuals. Payments to owners of cattle are made once a month or oftener in the shape of advances against milk already supplied. In the flush season extending from October to December, the society is compelled to return some milk to its members. In other months, however, all the milk supplied by members is purchased by the society. A dividend of 6¼ per cent together with a rebate of 9 pies in a rupee of milk supplied is usually given to the members. The apex bank grants financial accommodation to the society against milk bills of hospitals passed for payment. It charges interest at 6 per cent on such accommodation." (A.C.D.)

VIII. CO-OPERATIVE CENTRAL BANKS

"The membership of co-operative central banks in Madras is largely confined to co-operative societies; there are also a few individuals. Most of the loans and advances are made to the co-operative societies only. The Coimbatore-Nilgiris Co-operative Central Bank is a good example of this type. The membership of the bank on 30 June 1953 was 1,525, including 169 individuals. The paid-up share capital was Rs 5.94 lakhs of which Rs 4.97 lakhs were contributed by co-operative societies. The bank accepts different types of deposits; these amounted to Rs 141.19 lakhs on 30 June 1953. During the year, the bank was given an accommodation of Rs 23.25 lakhs by the Reserve Bank for the financing of societies concerned with agricultural credit and marketing. Of the total loans outstanding at the end of the year amounting to Rs 106.12 lakhs, short-term loans to societies accounted for Rs 66.57 lakhs, medium-term loans for Rs 29.88 lakhs and long-term loans for Rs 8.59 lakhs. Loans to individuals were less than Rs 1 lakh. The bank has been advancing large sums for the marketing of agricultural produce under the 'controlled credit scheme'. The bank is classed 'A' and has had a long record of able management." (A.C.D.)

"The membership of central co-operative banks in the Bombay State extends to societies and individuals. The financing of individuals who trade in agricultural commodities often forms an important aspect of their business. The East Khandesh Central

Co-operative Bank is a good example of a successful central bank in the Bombay State. Registered in 1916, its area of operation extends over the whole of East Khandesh District. It has 13 branches and 9 pay offices situated at all the important market towns of the district. Its paid-up capital amounted to Rs 15.05 lakhs on 30 June 1953; of this, Rs 9.62 lakhs were contributed by co-operative societies. Its reserve and other funds amounted to Rs 18.65 lakhs. The bank commands very large deposits; these amounted to Rs 187.40 lakhs at the end of the year 1952-3 and included nearly Rs 50 lakhs of current deposits. The bank's loans to agricultural societies, purchase and sale societies, and to individuals amounted to Rs 143.56 lakhs in 1952-3. Of the 1,490 villages in the district, 805 have agricultural credit societies financed by the bank. The bank also gives substantial loans to cotton sale societies and fruit sale societies. Such loans amounted to Rs 28.92 lakhs during the year 1951-2. For the year 1952-3 the bank was sanctioned a credit limit of Rs 40 lakhs by the Reserve Bank. Loans to individuals are granted against the security of agricultural produce, gold and silver. The bank also discounts bills of exchange. Its investments in this business were in the neighbourhood of Rs 20 lakhs in 1951-2. The bank earned during the year 1952-3 a net profit of Rs 2.77 lakhs. It pays a dividend of 5 per cent." (A.C.D.)

"A district co-operative bank in a Part A State, registered about 40 years ago, is situated in an area which is liable to scarcity and famine. Its membership is open to both societies and individuals; on 30 June 1952 the former were slightly more than 600 and the latter about 125. The paid-up share capital is less than Rs 5 lakhs of which only Rs 20,000 were contributed by individuals. The reserve and other funds amounted to Rs 1.80 lakhs, while deposits of all kinds amounted to Rs 7.22 lakhs. The loans outstanding at the end of the year were Rs 44.87 lakhs of which more than 50 per cent were due from agricultural credit societies. Because of a weak capital structure and inadequate deposits, the bank has had to borrow large amounts from other banks; such borrowings amounted to nearly Rs 35 lakhs at the end of the year 1951-2. Owing to prolonged scarcity, the borrowing societies have defaulted very heavily, with the result that overdues at the end of the year amounted to nearly 50 per cent of the total outstandings. In view of these heavy overdues, the little profit which the bank earns is carried to the bad debts reserve fund. The bank finds itself short of funds for issuing fresh loans. The societies, having reason to think they will not be given fresh loans by the bank, have tended to over-emphasize their inability to pay back outstanding dues. It is not easy to break this vicious circle without radical reorganization of the financial structure of the bank; and even so it will be necessary, as a compulsory measure, to make financial arrangements for stabilizing credit against the effects of scarcity, a task which must be regarded as in large part beyond the local institutions themselves. This bank has not been financed by the Reserve Bank in view of its having continued to be classed 'C' for a number of years." (A.C.D.)

' Central banks in Berar in Madhya Pradesh have, after the financial crisis of the thirties, tended to develop only one type of finance, viz., that intended for seasonal agricultural operations. The . . . Central Bank is one of the three central banks in the district of . . . .

" Its small area of operation extends over only two talukas. Its share capital of Rs 1.04 lakhs has been contributed both by individuals and societies of which the former account for nearly 61 per cent. Its reserve and other funds amounted to Rs 7.52 lakhs on 30 June 1953. The bank received Rs 5.50 lakhs out of the Reserve Bank loan to the State Co-operative Bank granted against the guarantee of the State Government. Loans and advances are made to individual agriculturists as well as to primary credit societies; these are for seasonal agricultural operations only, as mentioned above, and are repayable within 9 months. Loans to individual agriculturists accounted for nearly 25 per cent of the total loans in 1952-3. There are no medium or long-term loans and loans to non-credit societies (e.g., marketing societies) are negligible. Loans to individual agriculturists and to members of primary credit societies are given at a flat rate of Rs 14 per acre, which is very low considering that the area served by the bank falls in a rich cotton zone. The bank's annual recoveries are satisfactory in that they are above 95 per cent. All loans are given against the mortgage of landed property. The bank is classed 'A' and has been declaring dividends regularly at 5 per cent." (A.C.D.)

" A central bank in a Part A State was registered some thirty years ago. It was badly affected by the depression of the thirties. The operation of debt relief legislation (which, in the particular State, extended to co-operative credit institutions as well) resulted in its losing a large portion of its good assets. Added to the dislocation was the competition which grew up sometime after the outbreak of the last war in the shape of as many as five branches of different commercial banks which were opened in the area. Some years later, the bank happened to be selected by the State Government as one of the sub-divisional wholesalers of cloth. The relaxation of cloth control and recession in cloth prices made this commercial venture a source of loss instead of profit to the bank and it lost between Rs 35,000 and Rs 40,000. On 31 August 1951 the paid-up share capital of the bank was less than Rs 50,000. The reserves and other funds, also less than Rs 50,000, were almost wholly counterbalanced by overdues of interest etc., which had remained overdue for several years. The reserves are, therefore, largely fictitious. Of the loans of under Rs 3.5 lakhs outstanding, about Rs 2 lakhs represented new crop loans. The deposits were about Rs 75,000. The bank now operates almost wholly with loans from the State Co-operative Bank which in turn gets accommodation from the Reserve Bank on the guarantee of the State Government. The bank hopes to rehabilitate itself through the new business by way of short-term crop loans, which this accommodation has made possible. But it has a long period of want of confidence of depositors and its own record of half-hearted interest in agricultural credit to counteract." (A.C.D.)

" A central co-operative bank in a Part A State was established more than a quarter of a century ago. On 30 June 1953 its paid-up share capital amounted to somewhat more than half a lakh of rupees and its reserves and other funds to somewhat under Rs 3 lakhs. The bank accepts several types of deposits; on 30 June 1953 these amounted to more than Rs 14 lakhs including about Rs 9 lakhs of fixed deposits. The bank's loans to societies during 1952-3 were less than Rs 6 lakhs and to individuals less than half a lakh of rupees. In view of the limited scope which, in practice, confronts it in regard

to loans to co-operative societies—an important feature, not confined to this particular State—the bank's investments in Government and trustee securities amount to more than double its agricultural loans and are nearly equal to the deposits. This is truly an anomalous position in the context of the admittedly large needs of agricultural credit which remain unfulfilled or fulfilled by the wrong agencies, in practically every part of the country. The board of management consists of three representatives of individuals and seven representatives of societies. The administrative head of the district is the *ex-officio* president. Such loans as are given to agricultural societies are exclusively short-term. No medium-term loans are given." (A.C.D.)

"A central bank in a Part A State has existed for almost as long as the co-operative movement in India. The area of operation is the whole district. But only 40 per cent of substantially more than a thousand societies in the district are affiliated to the bank; and of the affiliated societies more than 75 per cent are defunct. The paid-up share capital of the bank on 30 June 1953 was under Rs 2 lakhs and its reserve fund less than 10 per cent of that. The deposits amounted to about Rs 3 lakhs. The loans outstanding against primary agricultural societies added up to less than Rs 2.5 lakhs on 30 June 1953. There are allegations of mishandling of the business of the bank by the management which, it is further alleged, is dominated by representatives of a particular community. Diversion of funds to commercial business, and unwise commercial business at that, is also reported. The affairs of the bank are now under the official notice of the State Government concerned." (A.C.D.)

"Another central bank in an important Part A State was organized more than 30 years ago. Its area now covers the whole of the district as a number of other central banks—each of them, like this bank itself, small ineffective units—have either been liquidated or are under liquidation. The district has more than 2,000 villages but the number of societies affiliated to the bank is about 150. Of these, less than half had outstanding business with the bank at the beginning of 1952-3 while fresh advances during the year were made to only about 25 societies or one-sixth of the affiliated number. The paid-up share capital was under Rs 15,000. Its reserves and other funds were together less than even this modest share capital. Deposits held by the bank were appreciably less than Rs 1 lakh. The outstandings against primary societies were about Rs 60,000. More than half of this had been overdue for a long period. The amount of overdue interest alone was Rs 15.000. It is reported that the affairs of this small bank, which is nevertheless the central co-operative bank for a whole district in a major Part A State, are badly managed and that the members of the board do not show sufficient interest in its affairs." (A.C.D.)

"A district of another Part A State covers 6 tehsils. It has 4 co-operative central banks, each of which serves one or two tehsils. There are no irrigation facilities and the area is entirely dependent upon rainfall. None of the 4 central banks has either adequate owned capital or appreciable deposits. The paid-up share capital of one of these central banks is Rs 1 lakh while that of the other three banks put together

is only slightly more than that. The statutory reserve and other funds of all the 4 banks amounted to less than Rs 5 lakhs and the total deposits to less than Rs 15 lakhs. The total working capital of all the banks together was less than Rs 35 lakhs, and the total of loans and advances outstanding at the end of the year less than Rs 25 lakhs." (A.C.D.)

"In one famine area which I visited in May 1951 I found collections being speeded up by distraint of movables such as house-doors and repayment by selling jewels. The officials of the central co-operative bank at . . . did not realize what they were doing." (N.O.R.)

"There is a certain amount of disinclination on the part of central banks to finance these societies [tenants' and field labourers' societies] as the majority of their members are landless labourers who cannot offer tangible securities." (*Report on the Working of Co-operative Societies in the State of Madras for the year ended 30 June 1948*, p. 48.)

CHAPTER 5

THE SOCIOLOGICAL BACKGROUND: SOME SIGNIFICANT SIDELIGHTS

In order to obtain the right perspective it is necessary to place the 'operational picture' of the last chapter against the social background of rural India. This is more important than almost anything else for a true understanding of the working of rural credit, co-operative, governmental or other; just as indeed it is also indispensable for the proper appraisal of the effects of any particular measure of policy or legislation or administration as they shape themselves, or sometimes fail to take shape at all, in the actualities of the Indian village. In the social structure and social dynamics of the village may be discerned both a diversity from region to region and, running through the diversity, a large element of uniformity over the whole of India. It is needless for our present purpose (even if the range of recent specialist studies enabled us to do so, which it does not) either to enter into the details of diversity or to analyse the causes of uniformity. It will suffice to say at this stage that the largest single sociological aspect, which is the institution of caste, and the largest single economic factor, which is the penetration of the industrialized economy of the cities, have combined to produce broadly the same results throughout the country-side; and that the regional variations are largely related to variations in the nature of the class structure on the one hand and in the character of the agricultural economy on the other. The contents of this chapter are intended to be illustrative of fact or suggestive of significance; they do not in any manner lay claim to being a comprehensive cross-section of either social or regional variations. They are drawn from different sources. So important, and at the same time so neglected, is the subject, that we do not feel called upon to apologize for the number and length of the extracts given. In choosing the sources we have, in as many instances as possible, advisedly turned to comparatively recent descriptions, i.e., to sociological accounts of rural conditions as they obtained more or less at the time this Survey was conducted. Further, we have no less deliberately included a large number of descriptions by foreign observers. It quite often happens that the significant ceases to impress, or even to register itself, merely because it is the familiar; that, at any rate, is a handicap to which the observer from abroad is not subject in his study of the Indian rural scene. We acknowledge our indebtedness to those whose descriptions, observations or views are reproduced; we would also thank the Editor of the *Economic Weekly*, Bombay, for permission to quote from a series of social studies, by different observers and of different parts of rural India, which sometime ago appeared in successive issues of the journal. Where the source is published material (or as in one instance an unpublished thesis which we have been permitted to use), author and document are named; where we have drawn from replies to our Questionnaire sent by non-official respondents, the nature of the source, but not the name of the writer, is indicated by the same symbol (N.O.R.) as has been used in the last chapter.

I. THE SOCIAL STRATIFICATION

(i) "The existing rigid social stratification should not be forgotten. For centuries, landowners and tenants may live nearby but have no close intimacy for sympathetic understanding of their day-to-day needs. Nearness alone does not impart mutual knowledge. Again, close contacts among castes create an affinity which cuts across co-operative loyalties. . . . Backward communities are tied to their old-world ceremonies, priests and caste rules. Their range of contacts is little. They are less susceptible to new ideas. They have little desire to improve their standard of life." (N.O.R.)

(ii) "Though theoretically anybody with wealth enough can purchase land, the buyer's previous social status makes it hard, even dangerous, for him to press his legal equality too far if he belongs to one of the lower castes. For instance, near Mudadi, a Pulaya had made money by selling mats and coir, and was able to purchase the *janmam* right to some land from a Nair—an impossibility some years ago. The Mopla tenant tried to build a house on the land, so as to make eviction impossible through the high compensation charged for improvements which would have had to be paid. But the Pulaya got a court order restraining this building and sued the Mopla for eviction under the Act of 1930, alleging bona fide economic need to cultivate the land himself. . . . but the day before the suit was to be heard he died—under highly suspicious circumstances. The son is now *janmi*, but the Mopla still cultivates the land as his tenant, the suit against him having been discreetly dropped." (*Land and Society in Malabar* by Adrian C. Mayer, pp. 133-4.)

(iii) "The directors of [certain co-operative] societies are Kammas, Reddis, Brahmins (top communities in villages) and they do not take even on their staff members of any other communities. If a Reddi is the president of the society, all the members of the staff are Reddis. If the president is a Brahmin, all the members of the staff are Brahmins." (N.O.R.)

(iv) "General bodies hardly meet from time to time to understand societies' affairs. A member wants a loan and ordinarily feels his responsibility to return it. But more than that, he feels, it is not his concern. The active interest he evinces in traditional matters such as conduct of temple festivals and submission of accounts in their respect is not to be found in the management of the society. Interest in administration is found in those villages where most of the members have a more or less similar land status and social status. The members appreciate the *panchayat* and question it too, in such villages, in case of mismanagement, but where big landowners are in the *panchayat* and the small owners and tenants look on them with awe, or where communities have differing social status and the top community is in the *panchayat*, the general body hardly functions. In fact, the poorer members and those who belong to backward communities feel they are being dragged to these meetings and have no consciousness of an equal status with that of the better classes in the village." (N.O.R.)

II. CASTE, OWNERSHIP OF LAND AND VILLAGE LEADERSHIP

(i) "In general, tenancy regulations are unworkable because the landlord is still left in a powerful position. Often he is the only literate man in the village. In the Punjab,

where tenants who have tilled a certain plot for five years were finally given permanent tenure, *I have been in villages where the records show that no tenant has tilled the same piece of land for more than two or three years! The village head and his associates, who* owned most of the land, were able to juggle the books because he alone knew how to read them." (*Ambassador's Report* by Chester Bowles, Harper & Brothers, New York, 1954, p. 185.)

(ii) "The co-operative organization today contains middle class leadership of varying and conflicting interests. It is only in India one finds . . . mill-owners, *rentier* landlords and traders being the leaders of co-operative organizations and yet we hear not a whisper from any quarter against this entry of inimical elements in the co-operative body." (N.O.R.)

(iii) "Village leadership has evolved in the Madras State on the basis of land ownership. This ownership has devolved in the following ways: (1) grant of lands to families of conquerors: (2) single landlord villages of early settlers: (3) families of revenue farmers to whom collection of State revenue was entrusted; (4) grants to individuals by such farmers for private and public services; (5) appropriation of lands by village headmen or assessors of revenue introduced by the East India Company; and (6) beneficial tenures by grants to individuals and religious and charitable institutions. These superior owners held lands in some villages in joint-tenure. The assemblies of these classes were no more than a meeting of the privileged shareholders to arrange for cultivation by tenants and slaves and to distribute the profits among themselves. The joint-tenure too broke up into individual ownership with the smallness of the share and a rise in price of commodities. Mr Baden Powell says of the village organizations of the south, the following:

> 'Those who have hoped to see in the joint-village anything of a communistic or socialistic type will be disappointed by a study of the real facts. By far the larger portion of the joint-villages were in origin the result not of communism but of conquest: of tribal and caste superiority and of family pride in the common descent from a house that once held sway in the country around. Not a few are the descendants of successful farmers of revenue, auction-purchasers and land speculators, who in common with others acknowledge the joint family law and the consequent joint inheritance.'

This system of landownership was affected latterly by the colonization of the Reddis and the Kammas in the dry areas in Tamilnad, in the seventeenth century, the purchase of lands by Brahmins and other superior classes who held posts in Government service in the nineteenth century, and recently such purchases by big landowners from the smaller who were forced to sell their holdings for discharge of debts, and by the war profiteers and land speculators in irrigation project areas since 1942.

"It is against this background that village leadership has evolved. Villages may be classified as six types according to the character of their leadership and the communities inhabiting them. Like all classifications, there may be borderline cases and some overlapping too. But six distinct types may be broadly drawn.

"(*a*) Where the landowners today are descendants of these leading communities and they form the main caste of owners as Brahmins, Reddis, Kammas, Rajus, Kapus,

Padayachis, Mudaliars, Gowndars, Thevars, Pillais, etc., they have inherited capacities of leadership and can administer a *panchayat*. But the other classes had no opportunities for leadership. They cannot claim equal status and will not ordinarily be elected to the *panchayat* like those of the leading communities. Many have also inherited their ancestral qualities of fighting against one another and these have been transferred to the modern forum of elections in co-operative societies or local bodies or the legislature. The general bodies too will be lively in these villages as each member is a scion of an old landlord family and is courageous enough to express his views freely without fear of the *panchayat* leaders. Some of them who have reached a higher educational level do take an interest in the society as an instrument for improving their occupational efficiency and material standards of living. Many of them are not subsistence-farmers who know just to produce a crop, but not to market it. They combine the profession of trade with agriculture. If, in these villages, commercial crops are also raised and they have irrigation facilities, they supply the best possible conditions for the development of rural co-operatives.

"(*b*) Where these leading communities lived, a new situation arose out of the operation of economic forces. Larger families lost their lands by excessive partition and sale to their cousins who retained more or less their original big holdings. With a reduction in the area of their ownership, the small holders became so much dependent on the middle and big landowners in various ways that they dared not oppose them. Thus arose societies in certain villages where the general body would not exercise its authoritity over the *panchayat*. Where big landowning families fought against each other, the smaller fry joined one or the other in the election of the *panchayat*. The communal bond, and the sanguinary ties proved greater sanctions than the corporate character of the co-operative society. The caste *panchayat* which regulates the personal and family life, customs and ceremonies of these communities is a greater dominating force on the members, and the limits of co-operative action lie here, that any censure of caste leadership will not be endorsed by the members of the community. This unceasing struggle between the loyalty claims of the old institutions and those of State and modern society is imperceptibly going on in village life. Education and outside contacts and the rising consciousness of the poorer classes is no doubt hastening the disruption of the old sanctions but in only a few villages connected with towns by railways and roads. Hence whatever might be the error or even offence of the *panchayat* or the president or the secretary, the general body condones it and the Registrar has to protect the society against itself under Section 43. One thing should, however, be noted in these villages inhabited by the leading agricultural communities. Strangers have been admitted to ownership in them. New communities who were originally watchers, or attenders in the courts of chieftains, or hunters, or shepherds, toddy-tappers, or fishermen have grown in numbers, bought bits of land, and taken lands on lease as crop-sharers or fixed rent tenants paying rents in cash or kind. They can hardly get admission in the *panchayats* of these villages. The service of loans for them will depend on the goodwill of the leaders of the chief landowning communities. Far below these classes were the untouchables who had absolutely no place in these societies, subject, however, to occasional exceptions.

"(*c*) A third type of villages lies in poor tracts mainly inhabited by backward communities who were once not agriculturists, or who were dependent on mixed farming

in dry rain-fed tracts. Some of them are diggers of wells in the off-season. They are so ignorant and so much afraid of the white-collared class and local officials that they look up for everything in connexion with their outside relations to the protection of their caste leaders. In their case, the *panchayat* has a strong sanction in social boycott. Where these leaders are honest and loyally carry out instructions of the superiors, and they have the good fortune of getting the services of efficient supervisors, the society too will be a good one, but the general body will hardly function as a superior authority over the *panchayat*.

" (*d*) A fourth type of villages combines not merely the institution of caste *panchayats* of forward agricultural communities and the leadership of the rich landlords (Gowndars), but also the priestly authority of the families of chieftains over them. In such villages nothing is possible without the consent of the family 'chieftain'. He may order repayment or withholding of loans by members of co-operative societies. Coercive processes will not be of any use in such areas as no one will come forward to buy the distrained movables or the attached lands without the permission of the Pattagar (chieftain).

" (*e*) A fifth type lies in dry rain-fed villages inhabited by hard-working single agricultural communities and possessing more or less an equality in the status of land-ownership. They are the Gowndars and the Reddis and Kammas who have settled in dry tracts, reclaimed lands, dug wells and have settled in Tirunelveli, Tiruchirapalli and Coimbatore Districts. They grow cotton, groundnut and other commercial crops. These are the areas where the general body can be effective and a responsible *panchayat* can be discovered. They need credit, but they suffer owing to constant failure of rains. In areas where the water-table is high, or where the lands are irrigated by canals, they are the best human resources for organizing co-operative societies.

" (*f*) A sixth type lies in canal areas in river valleys but unfortunately the land-owners here are mostly non-cultivators by tradition. Owing to the availability of cheap labour of the untouchable class, even erstwhile cultivators have become non-cultivators in these areas. The landowner finds it more economic to let lands on a crop-share than to cultivate them with hired labour. Some of them are *rentiers* and some farm managers working mainly through hired labour. If the landowners were peasants working as far as possible on the land with their families as the Punjab peasant who engages the least number of labourers as they have to be paid high wages, it would suit the growth of the co-operatives. However, good rural co-operative banks flourish in some of these villages because of the mixed character of the population, namely, traders, processors, sellers of milk for towns, etc. But they do not generally reach the small owner or tenants-at-will. A few banks have established a high standard of administration and lend small loans to the solvent though poor cultivators, on the pledge of jewels or standing crops. In fact, the efficiency of administration in a few banks in these areas raises the tone of punctuality in the members to be correct in their dealings with such banks.

" New influences too operate on the leadership of the village society. The village *munsif* who has official powers adds the money-stick to his power as the president of a society. The managership of a ration shop and the presidentship of the society in one and the same person put the ordinary cultivator at his mercy for food and the wherewithal for his occupation. The stay of officers in the houses of these leaders as their

guests during their tours adds to their power in the village. A combination of the presidentship of a village *panchayat* or a village court with that of the society equally concentrates power and wealth.

" And if a rich landlord is also a member of a local board, then the opportunities for misuse of power become manifold. Contacts of village leaders with the leadership in central societies and local boards are not always wholesome and they habituate them to the use of wrong means. It should be remembered that village leadership is still under feudal tradition, and crude tyrannies which the English-educated or officials will not think of in their relation to their subordinates, will come easy of practice to these leaders. The corrective lies only in the appointment of properly recruited, well-trained and sympathetically directed secretaries for village societies whose presence should be a challenge to the abuses of leadership in co-operative societies for one's power and pelf.

" The reaction of election vices on the members and the *panchayat* cannot be minimized. A series of elections to the local bodies and the legislature since 1921 have taught the local village leaders to make hay by promising the consolidated votes of their kinsmen and community to certain candidates. The respectable among them make their conduct appear in this respect as motivated by public weal, by asking for contributions for temples or reading rooms. The common voter too in some places gets a small contribution to meet his expenses for the election day and cover the loss of his wage. It is common in some villages to collect a contribution for temple festivals or for going on deputation to a minister or for making representations to the collector, from those who take a loan or use a co-operative store. Standards are low and they will rise only with the growth of the sense of honour and self-respect among the people. Those who talk of decentralized administration and glorify the co-operatives at the bottom as a preventive of bureaucratisation should take note of these facts and realize that the managerial set-up in rural co-operatives is unavoidable in a backward democracy." (N.O.R.)

(iv) " He was a young villager but his older neighbors were nodding in agreement as he answered an anti-Communist Indian political leader friend of mine who tried to tell him about the evils of the Soviet Union. ' I am not concerned about this faraway Stalin against whom you warn us,' the young man said to my friend. ' We have our own Stalin here in this village—the man who owns the lands we till. First tell us how to get out of his grip.' " (*Ambassador's Report* by Chester Bowles, p. 173.)

(v) " Certain inequalities as to the existence of *rentiers* and cultivators can be wiped off by legislation by granting security of tenure and rights of fair rent to tenants. Pending such legislation, the society will be dominated in some villages by landowners who are non-cultivators by tradition or have more lands which they can cultivate only by letting.

" Where a general body cannot even be persuaded to set right defects in the administration by changing the personnel of *panchayats* and prosecuting the latter for any misdeeds, there is no reason to continue a society in such places by the Registrar's powers of nomination of a committee or a paid officer. . . . Villages of peasant owners employing hired labour to the minimum, comprising traditional agricultural communities and having water facilities are the best for the successful working of co-operatives.

"The next best are the villages in river valleys raising many crops and comprising the topmost agricultural communities, educated and individual-conscious.

"Areas of poor rainfall and highly backward communities of lower social status should be avoided as far as possible for promoting Co-operation." (N.O.R.)

III. CASTE AND THE VILLAGE ECONOMY

(i) "The power of age-long custom has confined the business of purchase of agricultural requirements and the sale of agricultural produce to castes and tribes other than those whose traditional occupation is husbandry and the accumulated knowledge and experience possessed by members of those castes and tribes are not readily available to others." (*Report of the Royal Commission on Agriculture in India*, 1928, p. 470.)

(ii) "The new money and trade economy had also their reactions on village life. A self-sufficient village economy has given way to one subject to national and international commerce. Even today there are many agricultural communities who know to produce a crop but not to market it, for which they rely on their caste leaders. The replacement of barter by money needed a money sense, of borrowing in time and repaying in time. There are communities today to whom forecasting their needs of money is difficult. While they are honest and want to repay, they may fail to repay on proper dates. The new economy, therefore, has come sooner than the equipment of the cultivator to face its responsibilities. Added to this, the cultivator has little land of his own and rents them from landowners at a high rent owing to their scarcity value. The co-operative organization is established to get him the advantages of this new economy and release him from the clutches of the *rentier*, the moneylender, the grocer and the commission trader who have become his indispensable but profiteering assistants to raise a crop and get a value for his produce. Education of the ordinary cultivator on the need for his combination with other cultivators to himself manage these services has not been undertaken with an intensity and a tempo which will make a success of this combination." (N.O.R.)

(iii) "The moneylenders in the south are indigenous to the soil: even the Moplas by their life-long stay amidst a docile folk have become so. Even the Mopla has now become an agriculturist. The Brahmin moneylender is an agriculturist. The Komati Chetti is almost an agriculturist. In short, ryot moneylending is the rule in our presidency [Madras State]. This tendency is reflected in this tract also [Tambraparni area of Tirunelveli District]. . . . Financing the village, marketing its products and supplying its necessities, the moneylender here plays an important role. The moneylenders are recruited from the ranks of Brahmins and Vaisyas chiefly. . . . These moneylenders are localized in certain important towns in this tract from where the affairs are managed in the neighbouring villages by opening branches. Each branch is in charge of an accountant of the same place, who has risen to the post after prolonged service as a clerk. Among such places may be mentioned Kalladakurichi, Ambasamudram, Viravanallur, and Tirunelveli. In the place last mentioned, there are branches of the banks of the Kalladakurichi Brahmins. In these tracts, the wealth is entirely in the hands of the Brahmins and long streets of substantial Brahmin houses with their banks and cloth shops are a distinctive feature. Besides moneylending, in the old days, the income from cloth

trade was enormous. Practically all the cloth made by the numerous local weavers and those in Ambasamudram, Viravanallur, Pudukudi, etc., intended to be sent to Travancore market, is bought by these people. . . . From the cloth trade to moneylending is an easy step. Almost every moneylender here has emerged in this way. Moneylending, he knows to be more profitable than the trade itself. So, when a man has amassed sufficient wealth he becomes a banker. Every big banker here has risen from the ranks of the cloth merchant. Even today a certain kind of cloth worn by the Malabar ladies called the *muris* is being sent from Ambasamudram by some moneylenders. That this trade was flourishing, is indicated by the existence in Kalladakurichi and Ambasamudram of a community by name Tharaganars, a sub-section of Mudaliars. These were purely engaged in the packing of cloth to Malabar.

"From the earliest days the moneylenders of this tract were freely lending to the ryots. In preference to the agriculturists they chose only the cloth trade. But certain moneylenders specialize in agricultural finance. They lend for cultivation expenses, for marriage, either on pro-note or mortgages as the case may be. The clientele of the moneylender is drawn from the tract ten miles around. The Kalladakurichi Brahmin will have his customer even in villages very far off, like Adaichani, Seval, Arianayakapuram, Mukkadal, etc. Advances are made before the cultivation season to be repaid with interest after harvest. It often happens that the small borrowers who cultivate the land of the moneylenders borrow from them for cultivation expenses. Bigger landlords who cultivate the land on their own account borrow from the bigger moneylenders. The rates of interest charged vary from 9 to 12 per cent in the case of bigger clientele, but in the case of small borrowers the rate goes up to 18 per cent. A Palla cultivator can get a loan for meeting the cultivation expenses at a rate of three pies per rupee per month, a thing quite unknown to his cousin in big cities. In Madras, a daily labourer of his same social standing cannot get a loan for anything less than twice the price paid by the village Adi-Dravida." ('The Tambraparni Ryot'. An unpublished thesis by Dr V. Krishnan, Co-operative Training College, Poona.)

IV. OFFICIALDOM AND RURAL INDIA

(i) ". . . Fully aware of my own lack of intimate knowledge of Indian village life, I began to realize that many of the Indian officials from Delhi on down through the state capitals to the villages themselves, brilliantly educated and competent in Western ways, were almost equally estranged in one way or another, from village India." (*Ambassador's Report* by Chester Bowles, p. 186.)

(ii) ". . . Though it is now a truly Indian Government, the people see the same officials in charge of administration, and often react with the same non-committal attitude as they previously used. But it is not all due to the people's attitude. Government offices are places of forms, unintelligible red tape and waiting-rooms that the uninitiated and uneducated feel it is best not to approach. A lawyer whom the author knew decided to leave his practice and devote himself to the service of his country. He therefore applied to be allowed to work in a scheme of rural development nearby. The answer was no, he was not a Government servant, and this was a Government project. A proper answer, perhaps, for Government must be free to choose and engage its workers when it so desires, but hardly calculated to fire local enthusiasm for the project, or a feeling

of response to Government's policies! Officials, therefore are often only interested in carrying out the letter of the policy; rarely do they feel themselves to be the public's servants in the literal sense of the term." (*Land and Society in Malabar* by Adrian C. Mayer, pp. 143-4.)

(iii) "As most of the development planning of the Government of India is directed towards village development, I want to give you an idea of two different kinds of villages and of their relationship to the Government. One kind of village is the isolated forest village where previous development plans have had little effect and where culture change is almost entirely absent. The other kind of village is a plains village near Bangalore where numerous changes have taken place. For convenience, I will call the isolated village Kadduhalli or 'forest village'...

"The relationships of the people of Kadduhalli, the forest village, with the Government are strained and hostile beyond belief. Therefore, I will give you what information I have concerning the activities of the Government in this village as much as possible in the words of the villagers themselves and in terms of my actual observations as recorded in my field notes between 20 January 1953 and 10 March 1953.

"Starting then with 20 January 1953 here is a selected sample taken from my field notes with the idea of illustrating how the villagers feel about their Government.

"20 January 1953: Today a bamboo weaver of the village was caught removing bamboo from the reserved forest by a forest guide. The guard demanded a bribe of 15 rupees. The bamboo weaver said he had no money and the guard threatened to strike him. The bamboo weaver described the incident a few days after it occurred as follows:

" 'Seeing that the guard was about to hit me, a man named Shiva came and asked him not to strike me. Then the guard got mad at Shiva. He quarrelled with him and accused him of breaking forest rules and regulations. Finally, the guard took 10 rupees from me and went to the neighbouring village. The next day, the guard came with the watchman and ordered the watchman to remove all wooden articles from the house of Shiva The watchman brought them out. Then, the guard said, "I am going to burn all these things." Shiva asked the guard not to do that and promised to give him as much money as he asked for. Finally, the guard agreed to take 50 rupees after threatening to prosecute Shiva in court. No persons in the village should talk when the forest officers are punishing people who have brought bamboo.'

"23 January 1953: Basava and two other men were spreading grain ready for threshing. Myself and my interpreter watched their work and Basava talked of his troubles with the Government as follows:

" 'Now, we want four bamboo sticks about one and a half inches thick. If we are caught taking them, we will be fined five rupees. In almost all forest areas, they have these fines. To build a small house I must pay in advance the amount asked by the foresters.

" 'We are afraid of the king; we think he may fine us heavily or imprison us; so we pay whatever the guard demands and build our small houses. If we do any other work in the forest without their permission, they will put up a case against us.

" 'Yesterday they came here and took one *kolaga* of ragi from each house (a *kolaga* is enough grain to feed a man for a week) together with beans and clarified butter. If we don't give, they go into our houses, remove our firewood and put up a case against us. We are illiterate; we don't know how to deal with them; we don't know the rules and regulations of the Government.

" 'Collectively, if we oppose them, they make a separate case saying that the people of such and such a village assaulted them.

" 'In Mysore State, things are much better as firewood and a certain amount of bamboo can be brought from the forest. Once a year, we pay some money to the Mysore forest guards (this village, incidentally, is on the borderline between Madras and Mysore)....

" 'The ranger visits the village once or twice a year; the guard visits more frequently.

" 'Yearly, the forest produce is auctioned. We are not supposed to take anything without the written permission of those to whom the forest is auctioned. Usually, only businessmen purchase produce from the auction bidder. We must use our own trees. Even honey is auctioned, but we have a right to use the small combs.' . . .

"24 January 1953: *Statement of Rajappa:* 'We are afraid of Government officers; this is because they have done more harm than good in this village. Therefore, we will never say anything against any Government. Almost all villagers have fought for the benefit of their villages. By change, if the Government does any good to us, we will accept it as godsend.'

"2 February 1953: *Statement of Krishnappa:* 'At harvest time, we are giving the accountant one *kolaga* of ragi, the forest guard one *kolaga*, and the village menial four headloads at the time of cutting. My taxes on land are 11 rupees for 5 acres and one and a half for three tamarind trees.

" 'If we don't give money to these people, they report that we have broken some rule. Today, the accountant and headman asked us not to tell you anything . . .

" 'Just eight days before your visit, the revenue inspector took 70 rupees; that was the old inspector. Now the elders have agreed to give 35 rupees to the new revenue inspector. He wanted 50 rupees.'

"3 February 1953: *Statement of Motappa:* 'The teacher's son . . . is a member of the taluk food committee. . . . He made my older brother spend 700 rupees for a licence. When my brother understood that it was not possible for him to get a licence, he approached another educated farmer at . . . He sent my brother's application to the concerned officer and got the licence without any cost....

" ' We are paying Rs 16 to the *shambog* whenever we want to have a tamarind tree situated in the reserved forest put under our names. The accountant takes a yearly tax from us on such trees and we take the fruits. Usually, this [member of the taluk food committee] will take all of the tamarind trees in the reserved forests at auction every year. He will ask us not to touch any tamarind tree he has taken in auction.

Though we say a particular tree has been purchased from the Government and we are paying tax, he will say we may own some other small young tree somewhere. He asks [us] to pay Rs 50; otherwise he will take the harvest. We cannot oppose him. If we oppose him, he will come with the revenue inspector at some other time and tell something against us and make us pay a bribe. We do not know who made him a member of the food committee. He is one more *Yama* (God of Death) to us besides the forest people, revenue people, headman, accountant, police and vaccinator. To all of these people, we give bribes whenever they visit this village. In addition we give them foodstuffs free of charge.' . . .

"4 March 1953: Visit of the forest guards and watchmen as observed by myself and my assistant and recorded in my field notes. 'This morning, a band of about 15 ragged individuals without any uniforms came to the village. One of them was wearing part of a forester's uniform. The gang was carrying two guns. Two of them went to Thimappa's house and asked for a jack fruit. Thimappa said, 'I haven't any.' This irritated the guards and they seized his cattle, which were grazing in the fields. These cattle, they said, have been grazing illegally in the reserved forest. The guards brought the cattle to the village and threatened to impound them if the villagers did not pay a bribe. As the guards were leaving the village they caught sight of me and left the village without cattle and in a considerable haste.' . . .

"Here, then, is the situation of a forest village. The villagers are poor; many of them must collect roots from the forest in order to subsist and most of them cannot afford decent clothing or housing. They are completely uneducated; they know nothing of their constitutional rights or of any other rights. Consequently, they are at the mercy of any minor Government official who chooses to take advantage of them. The village is located in what should be rich and productive forest area; yet the forest has been almost completely destroyed by villagers, forest guards, and timber merchants. . . ." ('The Government and the Village'. A talk given by Alan R. Beals before the World Student Service Seminar at Mysore in June 1953.)

(iv) "Sometimes influential directors, presidents and secretaries of a society have such pull with the [concerned officer of the Co-operative Department] that the latter had to refuse registration of a new society at . . . " (N.O.R.)

(v) "In a village society, the village *munsif* was president. He had disputes with his tenants and labour. Immediately, he removed them from membership in the co-operative society. When the [concerned officer of the Co-operative Department] questioned this act, he replied they were communists. The [officer] also told these members: 'Go where you like.'" (N.O.R.)

V. VILLAGE SOCIETY AND SOME INDIGENOUS INSTITUTIONS OF CREDIT

(i) "There is one way of acquiring a lump sum of money without paying a fixed interest, and this is through the *kuri*.[1] . . . The Malayali name is used here because the often-used term 'lottery' is not appropriate to all types of *kuri*. The

[1] A variety of chit fund.

principle, however, is the same for all. It is that members of a group contribute towards a common fund, which is given to one member after another. The advantages are two-fold. First, a man can save through subscribing small amounts over a period of time, and, second, he will receive his savings in a lump sum, which will enable him to use them to greater effect than if the same amount were spent in small expenses over a period of time. *Kuri* savings are specially used for wedding ceremonies and at other times when capital outlay is needed.

"There were several *kuris* during the winter of 1949-50 at Chunangad. One was held by M., the ayurvedic doctor, who had moved to Chunangad a short time before. He collected over Rs 300 for medicines and repairs to his house. Some Nair families, whose physicians M's forefathers had been, donated Rs 5 or Rs 10 each. The rest was given by the inhabitants of the locality in amounts of Re 1 and Rs 2. Some gave, though they were themselves not thinking of having a *kuri*, but to have good relations with the doctor. They all came to M's one afternoon, made their donations, and were given parched rice and tea by M. The *kuri* started at about 2-30 and people stayed and gossiped late into the night.

"Two Moplas gave *kuris* for marriage expenses. Since the dates were close to each other, they each exchanged Rs 3 at their respective *kuris*. But usually the amount returned is greater than that given, a form of interest. The first Mopla was given Rs 4 by one man, and he returned Rs 4-8 when the latter held a *kuri* a few months later to pay off some debts. These kinds of *kuris* are most common in the villages; they are informal as to the amount given and the interest received. They are a rough-and-ready way of self-help, and bind people to each other with a tie of self-interest." (*Land and Society in Malabar* by Adrian C. Mayer, pp. 122-4.)

(ii) "In this tract [Tambraparni area of Tirunelveli District, Madras State], the chit funds meet two legitimate demands of the ryots: the necessity for a lump sum to meet some unforeseen expenditure and the provision of a form of saving where people are rarely strong-minded enough to keep intact their own savings without frittering them away. Even among the well-to-do classes this method of finding a lump sum has been popular both as a method of saving and as a method of loan on easy terms to meet extraordinary and special expenses. . . . Charitable institutions like hospitals and schools have been started and laid on a sound financial basis by means of these funds. Many instances of individuals having been helped in this way with initial capital for business can be cited in this tract. It seems to have owed its existence to want of banking facilities and we can affirm so far as this tract is concerned, that the chit fund is in essence a wholly beneficial method of saving money and of also borrowing money.

"The varieties of chit in vogue in this tract are:

(1) the Thattu Chit.

(2) the Auction Chit.

(3) the Sahaya Chit.

(4) the Lottery or Prize Chit.

In a chit fund there is the holder or the organizer and an agreed number of subscribers. The organizer himself is a subscriber. The sum-total which has to be contributed by

the subscribers is divided into so many subscribing units. The interval between the instalments varies according to the economic conditions of the tract. In an agricultural tract the instalment is fixed in accordance with the period when the harvest is realized. This is illustrated by the name of Poo Chit, Annual Chit, etc. The former means Harvest Chit. People belonging to the lower strata of society like the Pallans also contribute to Poo Chits, but in their case the subscription is paid in grain. The duration varies from a fortnight to two years. In the case of industrial labourers who get fortnightly or monthly wages we have Pournami Chits or quarterly chits or half-yearly chits. Landowners and big tenants contribute to Poo Chits but small tenants and agricultural labourers contribute to the monthly or quarterly chits.

"The Thattu Chit is one in which as many lots are cast as there are subscription units and the winner ascertained by casting of lots. No subscription unit can win more than once. . . .

"The Auction Chit . . . differs . . . in the method of operation . . . the subscribers . . . are also drawn from landowners, big tenants, and also others who expect to incur a certain expenditure at a specific future period. . . . Dutch-auction method is adopted in bidding and the winner is ascertained by the subscription units under-bidding one another and the fund is knocked down to one who undertakes to receive the lowest sum and acknowledge receipt of the full amount. Here too, the working expenses are deducted. . . .

"The Sahaya Chit is just like the Thattu Chit in principle and *modus operandi*, but the object is different. Whereas in the previous cases the chit is organized for finding capital and for profit, in this case the object is purely 'beneficial', e.g., to help a relative or a person known to the subscribers and here the terms are more liberal than in the previous cases. The contributions also will be from the rich who subscribe to the same, not for seeking profit out of investment so much as for helping the organizer. The organizer gets a lump sum amount at the beginning and repays the same in annual or half-yearly instalments. . . .

" . . . The writer knows various well-to-do families which have extricated themselves [from debts] by joining any one of the big chits. In the absence of big land mortgage banks to finance the landlords to clear the ancestral debts, these chit funds serve a very useful purpose. In some cases the chit money is used for marriage expenses. For meeting an emergency expenditure, these chit funds are used to a great extent. But for these chits, to meet such expenditure the ryots had to borrow at exorbitant rates as is the case in the city of Madras. About 50 per cent of the marriages are financed by means of these chit funds. These funds are also drawn upon for cultivation expenses and the buying of plough cattle. We find only a few cases of the funds being drawn upon for the sinking of wells, so far as Ambasamudram and Tirunelveli Taluks are concerned. In Tenkasi we find some cases where wells are sunk with the help of the money got from chit funds.

" . . . In the lottery or prize chit, the organizer gathers a number of subscribers, generally 500 in number each paying Rs 2 per month, and fixes the prize amount at one-tenth . . . The prize winner is ascertained by lots. . . .

"There are, besides the above chit funds, varieties called Vessel Chits, Cloth Chits, Grain Chits, Jewel Chits, etc. In principle they are just like the other chits. In method they resemble the Thattu Chit, and the subscribers get more or less the value of their subscriptions in kind. . . . In the case of Grain Chit the auction principle is in vogue. When there is a marriage the Grain Chit is taken and the proceeds are utilized to meet the demand for grain on the marriage occasion. Thus, money, vessels, and grain, are all secured by a person from these chits by his being a member in all the three chits. This practice obtains among the lower classes. In such cases marriages are purely financed by these chit funds, and these people succeed in clearing off their marriage debts by easy instalment payment.

"It may be asked, 'In what does the profit lie in conducting a chit fund?' The holder or organizer gets as his benefit the entire capital sum without any deduction at either the first or second instalments and is thus able to pay out of interest a major portion of the future instalments. It becomes really profitable if the chit is spread over a larger number of years. . . ." ('The Tambraparni Ryot'. An unpublished thesis by Dr V. Krishnan.)

VI. THE SOCIAL STRUCTURE OF A MYSORE VILLAGE

" . . . The village occupies a very restricted area--Kodagahalli is a somewhat large village, containing 1,523 inhabitants and yet one can go round it in about half an hour.

"Every villager knows most of the other members of the village. Everyone belongs to a caste, is a member of a joint family, and of the agnatic kin-group which is made up of a few joint families. . . .

"There was a striking demonstration of village unity during my stay. The Government suddenly passed an order that fishing rights in tanks all over the State should be sold by auction. When Kodagahalli people learnt of it, their spontaneous reaction was, 'What right has the Government to auction fishing rights in *our* tank?' The Government was, according to them, encroaching on something that belonged to them. (It must be mentioned here that in Kodagahalli, once every year, during the height of summer, when water is at the lowest, the headman and elders organize a fishing expedition. At night, by moonlight, most of the adults go with fishing baskets to the tank and catch fish. Next day there is a feast in every house.) On the day fixed for auction, the villagers saw to it that nobody in the village or from any of the neighbouring villages was there to bid. The visiting Government official had to return without an auction. . . .

"Formerly, in Kodagahalli, it was customary for two families, one belonging to the upper caste and the other to the untouchable caste, to be linked in a master-servant relationship. The servant was called the *halemaga* (old son) of the master. The servant family had certain duties on ritual and social occasions, e.g., at a wedding in

the master's family, the servant had to present a pair of sandals (*chemmalige*) to the bridegroom. The servant family was paid a quantity of paddy and straw at the harvest. In addition, it had the right to the carcass of any cow or bullock which died in the master's house.

"Nowadays, untouchables are beginning to refuse to perform these and other tasks which are considered to be degrading. But the upper castes want them to continue performing them, and there is friction. . . .

"The village has a solidarity even though composed of several different castes. Each caste again has a solidarity cutting across the village. . . .

"The village and caste authorities normally work together. Sometimes the former may tell the disputants, 'We don't like to interfere in this case. It is much better if you took this matter up to your caste authorities.' Again, the caste authorities consult the village authorities when a question of fact is involved--the latter are the men on the spot and know the parties to, and sometimes the facts as well of, the dispute. . . ." (M. N. Srinivas, Professor of Sociology, M. S. University of Baroda. The *Economic Weekly*, 30 October 1951.)

VII. CHANGE IN THE LEADERSHIP OF A MYSORE VILLAGE

"Hattarahalli[1] is a village of average size (population 620) about 15 miles from the city of Bangalore in southern India. For 70 years or more, it has been affected by urban influences reaching out from the city. Schools, courts of law, cinemas, hotels, military camps, railroads, buses. and motor lorries have brought about changes in almost every aspect of life. To the people of Hattarahalli, the most important of these changes are in the caste and character of those who control the social and economic life of the village. . . .

"The combined effect of the famine and of a newly-introduced, British-style, system of administration was to upset this traditional village organization. The five leading families were not able to retain all of the land in the village; much of it was confiscated by the Government when the owners failed to pay the land taxes. Later, the same land was given to the immigrants. This constituted the first step towards the establishment of a middle class in the village. . . .

"Between the First and the Second World War, the gradual development of the small farmer class in the village was paralleled by the growth of a system of public education in the rural area. . . .

"Parallel to the development of education in the village was a rapid increase in population and a consequent fragmentation of land holdings. Over-population and land fragmentation had the effect of creating a labour surplus which freed many young men from agricultural chores and enabled them to attend schools. In addition, this over-population impoverished the village and placed the small farmer in an increasingly

[1] The author has used a fictitious name for the village.

precarious position. In the 1930's, although landowning small farmers were becoming increasingly numerous in the village, it was becoming more and more difficult for them to grow sufficient food for their families. Middle class farmers were faced with the prospect of emigrating or becoming labourers upon the lands of large landowners, and their educated children were faced with unemployment.

"The coming of World War II and the establishment of a large military camp in the vicinity of the village checked this tendency towards impoverishment. The educated men in the village were able to find profitable employment in the military camp and the small farmer learned to produce 'English vegetables' . . . which he sold at high prices. When the war was over, many of the educated people in the village found jobs as school teachers and factory labourers. The small farmers had accumulated a store of cash and were looking forward to the time when their high-school-educated sons would find employment in newly constructed factories and contribute portions of their salaries to the family budget.

"In 1952 the village population included 10 Government employees, 30 school teachers, 15 factory workers, and more than 30 educated small farmers. Most of the moneylenders had vanished from the scene and loans were generally obtained from neighbours who were only slightly better off economically than the borrowers. On the other hand, economic conditions were becoming increasingly worse. There was no rain, the ragi (millet) crop gave about one quarter the usual yield and many small farmers were being forced into debt. Once again, as in the 1930's, the survival of the middle class element in the village became open to question. It was at this time, when the fortunes of the middle class in the village were at their lowest ebb, that the village *patel* decided to re-establish his caste as the highest in the village and to establish himself as the ruler of the village. . . .

"The *patel's* first move in proclaiming the superiority of his caste was to hold a fire-walking ceremony such as had not been held in the village in 60 years. . . . The *patel* justified this action by saying that the ceremony would benefit the whole village. At the same time, the *patel* refused to admit non-Lingayats to the ceremony. . . .

"Although the non-Lingayat residents of the village were infuriated by the *patel's* actions and talk, they contented themselves with holding a separate ceremony of their own. . . .

"Although the cutting of the tamarind branch resulted in the complete humiliation of the *patel*, the aroused villagers were not content to stop there. They continued to agitate against the *patel*, refusing to perform any services for members of his caste and refusing to pay taxes. Consequently, the *patel* was removed from office. . . .

". . . The *patel's* party consisted of members of his own caste, the Jangamma. Although the Jangamma caste is of average economic status in the village at present, it was once the wealthiest caste in the village. The *patel's* maternal grandfather owned much of the land in the village and had 16 tenants on his land and 7 serfs in his house. The *patel's* party, then, represents that element in the village which wishes to re-establish a feudal type of social hierarchy based on religious tradition and hereditary privilege. It would not be stretching the truth very far to say that the *patel* wishes to become the priest-king of the village.

" The party opposing the *patel* was a heterogeneous collection of individuals from a number of different castes. The members of this group derived their unity from certain ideals of democracy and social equality which they held in common. These ideals were derived from Government schools, from experience in the nearby military camp during World War II, and from their knowledge of the urban culture of Bangalore. . . .

" . . . The strength of the villagers' reaction to the activities of the *patel* and his followers indicates that the rule of rich landowners, priestly castes, and money-lenders has come to an end in Hattarahalli." (Alan R. Beals, The *Economic Weekly*, 25 April 1953.)

VIII. A VILLAGE IN RAJASTHAN: A STUDY IN RAPID SOCIAL CHANGE

" . . . Up till four years ago, the village was dominated by the palace not only physically, as it still is, but in every sphere of its social life. Fatehpura[1] was the seat of a major jagirdar of Udaipur, the semi-independent ruler of a considerable tract of land granted to his forefathers by Rana Partab. . . .

" Today, the scene is very different. The palace stands practically empty, with none of the hustle of the old days. Its magistrates' court is closed; the revenue officers' headquarters are elsewhere; the police station, the hospital, the school are all Government-run now. . . .

" The centre of local government has moved and resides in a town a dozen miles away, where the tehsildar and the magistrates have their offices; and these are fickle authorities subject to postings at a moment's notice. The villagers have not yet learned how to adapt themselves to all this; but they are keenly aware of the loss of prestige, of traffic, and of business that has followed the deposition of the palace rule.

" Slowly, over the last four years, the villagers of Fatehpura have begun to adapt themselves to the new order or rather, to the disappearance of the old. Formerly, the hierarchy of jagirdars and of greater and lesser officers of the palace set the scale against which everyone could ascertain his own social standing. Now that scale has gone and a general re-assessment is taking place. The village has taken stock of itself once more, and its inventory is roughly as follows.

" Preponderating in numbers are the *mahajans*, the merchant caste, of Jain religion. They have 150 households out of a total population (in 1951) of 2,750 persons. It is they who operate nearly all the shops in the main bazar, and among them are some of the richest members of the community and also one or two of the poorest pedlars and petty craftsmen who earn only a few annas a day, and are denied the resource of begging by reason of their caste.

" The two next largest groups are the Yadavs and Darogas, each living in its own quarter of the village. These communities are both formerly despised low-caste groups, which have during the present generation begun to claim a higher social standing. The

[1] The author has used a fictitious name for the village.

Yadavs did so by abandoning their traditional leather work for stone-masonry, and for the levelling experience of factory employment. The Darogas were once a slave caste, servants of the rulers. Now they are striking out in many new activities as keeping tea shops, cycle stores, and seeking employment in the towns. . . .

" Brahmin households are relatively few—20 in all. They, like the colony of 40 Mussalman households, were nearly all dependent on the palace. Now, the older Brahmins still find a living attending to the ritual occasions of the village families, but their younger sons without exception aspire to get educated and take a job in town. The Mussalmans are badly hit by the changed days. Some have become odd jobmen for the richer merchants; a few remain at very low wages among the skeleton staff of the palace.

" The poorest groups in the village are to be found in the quarters occupied by the Khatiks (butchers and farm labourers), the potters and the Bhils who in their village are almost all landless labourers. Other splinter groups, the tailors and barbers, sweetmeat sellers and goldsmiths, are not so badly off.

" Nominally, in the new order of things, the chief authority in the village is the democratically elected village *panchayat*, and the village's first citizen is the *sarpanch.* In fact, however, this body has not yet gained the citizens' respect and confidence. Perhaps one reason is that the Hindu villagers' genius is antipathetic to ways of ordering things which are too cut and dried, precise, impersonal. Significantly, in the old days, a *panchayat* never consisted of five, or seven, or any defined number of men: nor was there a recognized spokesman. Each dispute was a new crisis within a small sub-section of the community, to be decided on its merits by those senior members who were most intimately concerned—and not by rigid law or precedent.

" Similarly, one has the feeling that the village as a whole, in scores of unrelated informal *panchayats*, is beginning to formulate its group attitude towards the changing order; and in the process, it is noticeable that one or two forceful characters emerge as the men that matter in the village. All of them are above the average in wealth, but it is not only that—four of the richest men in the village (a Punjabi, a *darzi*, a *sheikh* and a *bania*: all moneylenders) refrain altogether from taking part in public affairs.

" During this period of flux, also, a major feud has developed between two factions of *banias*, and it is becoming increasingly difficult for the ordinary citizen to prevent his being drawn into one side or the other. The dispute began over a struggle as to which faction should get control of the sale of rationed cloth: it has gone on to quarrels, fights, law-suits, ' rigging ' of the village *panchayat* elections—and it seems to gather momentum as it goes. . . .

" In the present lacuna left by the disappearance of the old regime, a few strong self-interested men are asserting their personal authority: but so far, it is a tentative assertion—they are like wrestlers circling round each other warily in the ring—and all the while the disinherited jagirdars look on, grudging the loss of their former pre-eminence.

" As I have tried to indicate, in a complex, reciprocally interacting community like this big village, the emergence of leaders, of social sanctions and of new social forms of

expression of opinion cannot be accomplished by Act of Parliament, however well thought out. It is an organic process, the product of a multitude of thrusts and stresses. In Fatehpura, as in villages all over Rajasthan, the process is going on apace." (G. Morris Carstairs. The *Economic Weekly*, 26 January 1952.)

IX. VILLAGE STRUCTURE IN NORTH KERALA

". . . Despite the uniform administration through village officials which has been superimposed over the whole of Malabar District and Cochin State,[1] with but minor discrepancies, there nevertheless remain appreciable variations in structure even among overwhelmingly Hindu villages. An attempt is made here to provide a general picture of village structure in North Kerala, rather than to concentrate on the detailed organization of a single village. . . .

"Instead of living huddled in a street, as so many other Indians do, the Malayali prefers the privacy of his own fenced compound, at a distance from his neighbours. . . .

"Within the village, caste rank was—and still is—closely correlated with relationship to the land, especially paddy-land. In north Malabar, the headman family of the village sometimes still remains the chief landowner, while in the south the landlord may more often be a Nambudiri or a temple *devaswam*, in which case the headman family will have some freehold fields and hold the rest as a tenant. Although the headman family may till more than enough land for its own needs, the bulk of it is parcelled out among tenants, who may cultivate it themselves or sub-lease it yet again. Nambudiris and chieftain castes tend to be landowners; the higher Nayar sub-castes are either land-owners or non-cultivating tenants ('customary *kanamdars*'); the inferior Nayars and some Tiyyas are cultivating sub-tenants, either on permanent leases ('cultivating *kanamdars*') or on annual leases (*verumpattamdars*); the majority of upper polluting castes are landless labourers; while the lower polluting castes were until recently serfs, tied to a particular block of land, and, if the land was transferred, themselves automatically transferred to the new owner. . . .

"Since the British took over the administration of Malabar at the end of the eighteenth century, changes (foreshadowed during the Mysorean invasions of the preceding 40 years) have been numerous and far-reaching. . . . The existence of a gradation of caste rank continues to be acknowledged, even though the correlated elements of differential political, juridical, and economic rank have in many cases been greatly blurred: and although caste is no longer the only factor determining social relations of superordination and subordination, it is still the most important one. Wealth and positions in Government service provide new determinants of status, but they remain the preserves of the higher castes sufficiently to hinder the decline of caste rank as a determinant in itself. . . .

"It would nevertheless be difficult to find a village where very many examples of the interdependence of castes do not survive not only in its economic but in its more ritual aspects.... Convention is too strong to allow them to fall into disuse for many years to come. Many families are still bound together in their ancient master-servant

[1] Now part of the Travancore-Cochin State.

relationship. In villages near towns, increasing numbers of people have abandoned traditional occupations for labour in industry; but there are few instances of Hindus entering occupations proper to castes other than their own.

" Despite population growth and movement, every village retains a nucleus of families from all castes who have lived there from time immemorial. Immigrant families, even down to the fifth generation, are remembered as 'foreigners' though they have intermarried extensively with native families of their own sub-caste. Partly because of population movements, however, and more especially because of its lack of compactness, the Kerala village is probably a less self-contained entity than its counterparts elsewhere in India. . . ." (Eric J. Miller. The *Economic Weekly*, 9 February 1952.)

X. A HIMALAYAN VILLAGE

" There is a tendency among those people who are citizens of a large country like India to regard the whole of one's country as consisting of the same sort of people living in the same sort of villages or towns as oneself. . . . But in actual fact within the large unit of a country like India there are multitudes of different customs, rites and ceremonies found only in one spot which represent the individuality of the area concerned. This study of a district's individual peculiarities is every bit as important as the study of broad general features of the whole Indian society. In fact, even more important. . . .

" The Gaddi people are an especially interesting people from this point of view. . . . They live in small villages scattered along the banks of the Upper Ravi and Budl Nadl rivers in Chamba State[1] and along the foothills of the Dhaula Dhar range in the Palampur tehsil of the Kangra District of eastern Punjab. . . . They are probably the wealthiest of all the separate peoples who make up Chamba State, but this is not due to their skill in agriculture, at which they are not very good, but to the fact that a number of villagers in every village supplement their income by tending sheep and goats. . . .

" Each village consists almost always of one caste, usually Rajputs, Khatris or Thakurs, all of whom can interdine and intermarry. . . . As a general rule, however, the villages consist almost entirely of one caste, all Sipis, all Rajputs or all Brahmins. . . .

" Villages themselves are not very important entities. Most of the larger ones have a *lambardar* who is usually the biggest payer of land revenue and who collects the revenue on behalf of the Raja and now of the State. Above him, there is the *likhnara* and above him the tehsildar who is directly responsible to the district commissioner. Only the last two receive a definite Government salary. The *lambardar* in Goshen village could neither read nor write, but because the village is such a small unit he can easily remember how much land each person has. He is responsible for collecting land revenue from those members of the village who own land within a certain area from the village. But actually these Government officials have very little to do with village government. Any special demands on the village are discussed by the older men of the village and action taken . . . The smallness of the village unit precludes the necessity of a formalized village government. If one were dissatisfied with one's own village one can always move away and settle in some relative's village. . . .

[1] Now part of Himachal Pradesh.

" Some remarks should be made here about the system of *birton*, a system of mutual obligation and duties between individuals in different castes based on traditional usage. This was specially noticeable during the marriage of a son and daughter in the *saj* and *tambol* ceremonies. At the marriage of a son or daughter, those people who have *birton* with the bride or bridegroom's father present symbolic gifts or money to the father to help defray the cost of the wedding. These gifts have no relationship to either caste or kinship. The amount of money given is written down and at the donor's wedding a similar gift is returned, usually with a slight increase. Similarly, a person who wishes to build a house will go to a group of Sipis with whom one has a *birton* agreement and ask them to carry up slates for the house free from the river . . . in exchange for which they will receive a certain amount of the harvest. This is not an economic bargain, however, but a validation of an already existing social relationship. It is the *birton* system which holds different individuals and groups together in the different castes and villages. It was noticeable that in the four or five weddings I attended, the majority of *birton* gifts at *tambol* came from people with whom normally one would have had little contact." (W. H. Newell. The *Economic Weekly*, 23 February 1952.)

XI. BHIL VILLAGES OF WESTERN UDAIPUR: A STUDY IN RESISTANCE TO SOCIAL CHANGE

". . . Villages in this Bhil country are quite unlike those of the plains. Bhil houses are built at some distance from each other. . . . Village names are very numerous, and refer sometimes to a group of only four or five huts in a tributary valley, but a *mukhi* always belongs to a larger group, of a dozen or more households; and in some cases several smaller hamlets come under his jurisdiction. . . .

". . . The *mukhi* represents the village in all dealings with other villages or with the ruler's representatives. His authority is unchallenged -provided that it is sensibly exercised. . . .

" The jungle provides good grazing all the year round and every family has a modicum of cattle and goats, whose milk they turn to *ghee* and sell at the nearest trader's shop. This, and the sale of bee's wax found in the jungle, and leaves for the wrapping of *bidis*, provide them with a few annas a day just enough to buy the essentials of life - salt, pepper, grain and tobacco. . . .

" In the daily life of these Bhils, magic and witchcraft play a very important part while religion occupies a minor role. . . .

" So long as a feud exists -and in every village there are always two or three *ubo*, i.e., outstanding -the parties to it 'break off diplomatic relations', that is, they will not sit nor eat nor smoke together and, again like sovereign powers, they 'reserve the right to take appropriate action' with bow and arrow or sword or muzzle-loader. It is this continuing threat of the recourse to violence which stimulates the *mukhis* and the neighbours of the families concerned, to work for a settlement: and until this has been reached, in the presence of a *panchayat* of responsible caste fellows, and the disputants have eaten opium together, to symbolize the end of their enmity, the dispute will not be over—no

matter what the official decision has been." (G. Morris Carstairs. The *Economic Weekly*, 1 March 1952.)

XII. A 'HERMIT' VILLAGE IN KULU

"About 60 miles north of Simla . . . is the Himalayan District of Kulu, an area of some 2,000 square miles of rugged, forest-clad mountains intersected by deep river valleys along which the villages are scattered. The mountain ranges are formidable barriers surrounding each valley. . . .

"I stress this severe physical isolation of Malana because it is of great importance when considering the social organization of the Malanis . . . One result of this isolation has been that Malana has been more or less ignored by the Government, and is rarely visited by Government officials from Kulu. It enjoys a sort of *de facto* independence . . . It has its own system of village government, its own court for settling disputes, and a measure of village autonomy quite distinct from that of other Kulu villages which have all been drawn into the official administrative system of government departments and courts in the town of Kulu, and government *panchayats* and minor officials in each *kothi* (or circuit of villages). . . .

"The Malanis have their own language, *kanashi*, which must be one of the smallest languages in the world. . . .

"Perhaps the most interesting feature of the village is its political and judicial organization. Throughout Kulu, Malana is famed both for its village council and as the 'village of Jamlu'. Jamlu, the powerful tutelary deity of Malana, dominates and pervades the whole village. In his worship, the unity and solidarity of the village are strikingly and elaborately expressed. . . .

". . . All the land is owned by Jamlu and the Malanis consider themselves as tenants of the God—though of two classes, permanent (having all rights of sale, inheritance, etc.) and temporary (having these rights at the pleasure of the council, and in return for special payments into the treasury). The Malanis supplement their food supply by bartering *ghee*, wool, honey, and game birds in various Kulu villages for rice and maize, rock salt, and iron and tools. In these transactions, the Malanis dislike taking currency and insist on their traditional barter rates even when these rates are unfavourable to them. . . ." (Collin Rosser. The *Economic Weekly*, 17 May 1952.)

XIII. THE SOCIAL STRUCTURE OF A TANJORE VILLAGE

"Two types of village structure appear to be present in Tanjore District. The most prevalent is the *mirasi* village, where the land is owned in small amounts by a number of separate patrilineal joint families. This type apparently dates in its essential features from the period of the Tamil Chola kings. . . . The other type, the *inam* village, dates from the Mahratta conquest . . . when the alien Mahratta kings made grants of whole villages to individual families of Tamil Brahmins and immigrant Mahrattas and to religious institutions. Here, I attempt to outline the social organization of a *mirasi* village in the north-west of the district, and to indicate what seem, after four months of observation, to be the most important trends of change.

" Tanjore village people divide the many castes of Hindus into three sub-divisions: Brahmin, non-Brahmin and Adi-Dravida (' Original Dravidians', sometimes called Harijans, most of whom were once serfs of the soil). The structure of a *mirasi* village varies according to whether it is a ' Brahmin ' or a ' non-Brahmin ' village. In the ' Brahmin village', the land is owned by the several families of a Brahmin street (*agraharam*). Some of this land is leased in small amounts on an annual tenure to landless families of one or more non-Brahmin streets, usually of the ' lower ' non-Brahmin castes . . . Other land, retained by the landlords (who are called *mirasdars*) is cultivated directly by labourers from an Adi-Dravida street situated at some distance from the rest of the village. In the ' non-Brahmin village', the land is owned by joint families of a street of non-Brahmins, usually of one of the ' higher ' non-Brahmin castes of Vellalar or Kallar. Some land may be then leased to other, ' lower caste ' non-Brahmins, or more frequently cultivated directly with the aid of Adi-Dravida servants. In these villages there is usually only a single Brahmin family of priests who serve the village temple.

" Kumbapettai is a fairly typical ' Brahmin village'. One and a half miles square, with a population of about 1,200, it lies on a bus route 8 miles from a town. . . .

" Just off the main road, in the north-east of the village, lies the Brahmin street of 46 houses, 10 of which are now empty, their owners having moved to the towns. . . . A single non-Brahmin house of Kutthadis . . . stands alone on the north-west boundary of the village. . . .

" Southwards, across garden and paddy land, lie 20 houses, in 2 streets, of the non-Brahmin Konar caste. The Konar are cowherds by tradition. . . . Today, the income (derived from all sources) of Brahmin families living entirely in the village, varies from about Rs 80 to about Rs 900 a month. The average Konar household, by contrast, appears to earn one *kalam* of paddy per adult per month, plus Rs 20 to Rs 60 in cash, thus bringing the value of the total income to between Rs 50 and Rs 100 per month. Adi-Dravida families, by contrast again, appear to demand rather more paddy and less cash; the average income of an Adi-Dravida household may be estimated very roughly at a value of between Rs 40 and Rs 80 per month. Most Konar families keep one or two cows, and in addition . . . do garden work for Brahmins. Their service was formerly hereditary. . . . Today, individual Konar men, like Adi-Dravidas, sometimes become ' attached ' for a period to a particular Brahmin landlord through indebtedness; they borrow money from the landlord and must then work only for him until the debt is repaid. In the old type of service, in which families of Konar and Adi-Dravidas worked by hereditary right for Brahmin families, the servants were called *adimai* (serfs). This word is now seldom heard. A few people, both Konar and Adi-Dravida, do, however, still work from choice for their traditional masters, who distinguish between hereditary servants and hired labourers, and feel greater responsibility for the former, giving them gifts at marriages and sending food during sickness. Hereditary servants are paid at least partly in paddy, which they prefer. An ordinary hired labourer may be paid daily in the same way, or monthly in cash: he is called a *pannaiyal* (workman).

" Konar are also tenants to Brahmin landlords, usually to the men whom they serve. The tenure is called *kuthakai*. . . .

"Having outlined the caste groups, we may see where lie the most fundamental unities and cleavages within the village structure. Most striking in a Tanjore village is the unity of the individual caste group: this was usually, until recently, the unity of a single street. The members of a caste within one village are first united by similarity of occupation, of rights in the land, of income, and of ritual beliefs and practices. Formerly, all the Brahmins were *mirasdars*, all the Konar *kuthakai* tenants, and all the Adi-Dravidas landless labourers. The non-Brahmins are set off from the Brahmins by numerous differences of custom . . . We have already mentioned the Brahminical temples; these, now officially open to all castes, are still almost exclusively used by Brahmins, though non-Brahmins (but not Adi-Dravidas) occasionally enter the outer court at a festival . . . The Konar have their own village goddess. . . .

"Caste unity, and the authoritarian role of the landlords, appears again in village administration. The village forms a local revenue unit under a village headman appointed by Government. The headman must collect the revenue from *mirasdars*, and has the right to try small civil cases within the village. He is assisted by a clerk, and commands the services of two revenue collectors and a peon. Theoretically, these officials may be of any caste; actually, of course, the headman and clerk are Brahmins and the three servants, non-Brahmins. In addition, the village forms a *panchayat* under an elected *panchayat* board with a president and seven members. The board control a fund derived from a small portion of the village revenue; their chief work is to maintain roads and wells. As might be expected, all are Brahmins, since Brahmins own the land of the village. The relatively modern institutions of village headman and *panchayat* board have, in fact, been welded into a much older form of administration which is still of great importance. With the exception of the Brahmins, each caste street annually elects two headmen . . . who are responsible for maintaining order in the street. Any offence . . . demands the attention of the headmen, who haul the culprit before an assembly of men of the street. . . . If the offence is slight, the headmen may pronounce justice, themselves administering a fine or a public whipping. In a more serious dispute, the Brahmin landlords of the culprits must be called to ratify the headmen's conclusions and themselves execute judgement. In particular, any dispute affecting the reputation or the general peace of the village requires Brahmin intervention. . . . The Brahmins themselves have no headmen, and rely less on arbitrators to settle their private disputes. This is in keeping with their position of authority in the village and with the fact that in general, Brahmins admit no superiors and pay less formal respect to their elders within the caste. . . .

"As in all Indian villages, however, a unity of the whole village overrides the separateness of each caste. The basis of this unity is the economic interdependence of landlords, tenants, labourers and village servants . . .

"Today, however, the village structure presents no longer a nice balance of unities and antagonisms between caste and kinship groups in a self-sufficient little republic. For obviously, the economic basis of the system has been fundamentally upset within the last 50 to 70 years. It is impossible to enumerate all the ways in which this has happened, but we may mention a few. Most important in Kumbapettai is the departure to urban work of a large number of Brahmin families and individuals. A few of these

have sold their lands to middle class trading families of the nearby town; the majority leave their empty houses locked and return after each harvest to collect their rents, now in cash. . . . Relations between absentee landlord and tenant are unsatisfactory. Often, the landlord barely knows his tenants by name and knows nothing about their circumstances or the business of cultivation. Often, his only interest in the village is to take away money from it twice annually; a few landlords of Kumbapettai do not know the site and acreage of their lands. Among both Adi-Dravidas and the poorer Konar tenants it is beginning to be said in secret that such owners have no right to their lands; since, as Brahmins, they no longer spend their lives in praying for the community and administering its affairs, they should no longer share its income. To this, the Brahmins reply that without urban work they can no longer maintain their standard of living . . .

"A stronger blow has been dealt at the Kumbapettai social system by the influx, in the last 50 years, of the 2 new streets of mixed non-Brahmin castes. These, owing no traditional allegiance to the Brahmins, tend to resent their authority and to set up an administration of their own. . . . The standard of living of the families in these two streets, partly employed as they are in trade and by landlords from outside the village, tends to be higher than that of other non-Brahmins and allows them to dictate terms to the local landlords. The Kallar paddy merchant's family, in particular, have become powerful non-Brahmin leaders . . . this rising middle class family refuse to observe all the old rules of ritual pollution with their employers . . .

". . . In Kumbapettai, the gradual drift to the cities of an educated aristocracy, the transfer of land to middle class trading families of the towns, and the infiltration of a small, autonomous working class group supported by urban forms of labour, have begun this process, and it may be expected to continue until the village has lost its traditional integration and become little more than a unit of neighbourhood." (Kathleen Gough. The *Economic Weekly*, 24 May 1952.)

XIV. TECHNOLOGY, CREDIT AND CULTURE IN AN INDIAN VILLAGE

"Formerly a tribal people, the Kota of the Nilgiri Hills are now subject to the same forces which affect villagers in south India generally. The seven Kota villages are interspersed among those of the ancient inhabitants of the Nilgiris.

"Kota economy was . . . geared to a caste-like division of labour with three other tribes. In return for the iron tools, wooden utensils, pots, and music which they provided, the Kota received traditionally fixed contributions. From the Toda, the Kota obtained buffalo carcasses and some dairy products; from the Kurumba they procured magical protection and some forest produce; and from the most numerous people, the agricultural Badaga, they received grain. . . .

"The successful operation . . . of the whole system of inter-tribal relations pivoted on the Kota economic monopolies and on the internal cohesion of the tribe. In recent decades, the monopolies have ceased to exist and patterns of internal cohesion have become lax. For over a century past, English officials, European missionaries, and migrants—

both Hindu and Muslim—from the neighbouring plains have come into the Nilgiri plateau. For many years the advent of these new-comers had remarkably little effect on the relations among the Nilgiri tribes. Then, in the last 25 years, changes have come with a rush.

" Most Badagas, who now buy tools and utensils in the bazars of the Nilgiri towns, also stopped using Kota music at ceremonies. With the income from the Badagas thus curtailed, the Kotas had to increase their agricultural efforts. Like the other cultivators of the Nilgiri area, they have concentrated on the growing of a cash crop, potatoes. The Kota use potatoes occasionally in curries, but do not consider potatoes to be a real food. Hence, they must buy foodgrains with the cash derived from the potato crop. . . .

" Thus, the Kota villager must buy commercial fertilizers in order to raise a crop of any kind. He can get the cash or the credit with which to buy fertilizers only by growing potatoes.

" Credit, for most Kota cultivators, is essential for their economic operations. Some Kota have utilized the Government-sponsored co-operative credit association. But as not uncommonly happens elsewhere in India, the Kota villager has generally found the bureaucratic organization of these credit co-operatives too rigid and has not used this service regularly, despite the lower rates of interest charged. . . .

" The rush of recent change has also weakened the internal cohesion of the village. . . . The old unity of the village as against other groups is no longer manifest.

" In place of the old economic dependence on the supply of Badaga grain, the Kota villager is now dependent on the supply of fertilizer available from the factory, on the purchasing power of his money, on the vagaries of supply in the ration shop. The great difference is not in the fact of economic dependence, but in the fact that formerly the Kota had some control over the peoples on whom they were dependent. They have no control over the peoples and forces on whom they are presently dependent. This frustration has made for greater hostilities between Kota and Badaga as well as between conservative and reform factions within the village. Some hostility is also directed towards the Government. Similar situations prevail widely in Indian villages." (David G. Mandelbaum. The *Economic Weekly*, 15 August 1952.)

XV. AN ORIYA HILL VILLAGE

" Bisipara is 100 miles east of Cuttack and 40 miles south of the Mahanadi River. It lies on the southern edge of an egg-shaped plain which is two miles from east to west and a mile from north to south. The plain is 1,750 feet above sea-level and the hills around rise between 500 and 1,000 feet higher. . . . The plain consists of jungle-covered mounds, in height about 50 feet. On one of these Bisipara is built. . . . The hills have been occupied, since time unknown, by Kui-speaking peoples. . . .

" However, in spite of diverse origins, occupations, languages and interests, the population of the village can be a unity. For example, in the middle of October it was discovered that the ripening paddy was being eaten by an insect. . . . The village

headman sent a report to the Agricultural Department. The people of the village decided to hold a *rugo bolani*—a ceremony to avert the disaster. . . .

"The factors which underline such unified actions are these: Firstly, the majority of the villagers have a common background. . . . Secondly, they have a common interest in their economic life. Everyone's fields were attacked by the bug. Traders are rivals, but they have a common concern in such topics as the price turmeric is fetching, and in the fact that a rich and enterprising Kui man has now begun to market his own turmeric and mustard seed. Thirdly, there is a great multiplicity of ties between persons. . . .

"The village unity is a rope of many strands. When the village decided to discipline their Brahmin, he was not supported, as one might expect, by his fellow Brahmins. They were tied into the village in too many ways. The metaphor appropriately suggests that he was unable, by pulling on the one strand of caste, to break the whole rope.

"I do not suggest that the village is a Utopia of perfect integration. It is a village axiom that the poor are helpless against the rich. Up to the present day, the majority of the rich are tied into the village in the manner I have described above. But one wealthy man, who has fields here and a prosperous business in . . . has for years defied the canons of good behaviour. . . . The *panchayat* is powerless. One victim won a case against him, but the rest are too poor or too ignorant to go to law. He is rich enough not to depend on friends and relatives for help at harvest or transplanting time, and when sickness comes.

"The point is not only that this man is without a social conscience, but also that he has interests outside the village. Thus, he is less dependent on his fellow villagers than are other men in Bisipara. This suggests that the more the village becomes integrated in the larger economy, by the private enterprise of men like this, the less of a unity it becomes." (F. G. Bailey. The *Economic Weekly*, 21 March 1953.)

XVI. SOCIAL STRUCTURE AND CHANGE IN A U.P. VILLAGE

"The social structure of many Hindu villages raises problems for concerted action which must be squarely faced by all who would speculate upon or plan for the real future of rural India. Kishan Garhi, a village in the Brij Division of the Upper Ganges-Jamuna Doab, is a fair specimen of the complex village settlements which crowd the most productive agricultural areas of the country. The present situation there and the trends which have created it give pause to thought.

"Kishan Garhi, with its 160 mud houses, is half again as large as the average U.P. village. Its greater size allows it to include a fortress belonging to three one-time landlords, and a large number of specialists (45 houses) and traders (10 houses)—small but vital elements of rural life—as well as the agricultural core of tenant farmers (68 houses) and landless agricultural labourers (34 houses). . . .

". . . A farmer ordinarily depends on others' wells for half of his irrigation. Since the average holding has now come to be divided into nine non-contiguous plots, the

success of one man's crops may depend on his maintaining good relations with the 15 persons who ordinarily comprise his field-neighbours. No more than one-half of the tiny work groups can consist of fellow members of the same caste and clan. Sixty-eight families of farmers cultivate 40 holdings and ultimately distribute the yield of each holding among some 12 sharers. Even the landlord rights have come to be complexly divided, changing from 3 units 80 years ago to 11 separately managed units at present. . . .

" . . . But the depression, followed by rising crop prices together with new tenancy legislation helped to unbind most of the older land and debt dependencies. Five families of landlords and two of tenant-lenders were themselves bankrupted. The forest and pasture lands were parcelled out to tenants for cultivation. Most of the tenants were made secure, their rents reduced and fixed. The landlord's personal fields were whittled away; today there remains but a single tenant-at-will of one landlord. Sub-tenants and share-croppers are an increasing class of cultivators; for fear of the 1939 tenancy laws, they are moved about every year or at the most, every two years. Labourers are rarely kept by an employer for longer than the six-month watering season. Groupings whose form is determined by economic dependency have thus generally become smaller and more diffuse; they no longer clearly organize the village into segments of distinct allegiance.

" A similar break-up of larger dependent segments has overtaken the artisans and servants. . . .

" Paralleling the clear, old hierarchy of economic power 30 years ago was an informal but compelling structure of power. The landlords were the law for all purposes beyond the caste councils. . . . But unrivalled economic status has slipped from the hands of the petty landlords of Kishan Garhi, and they have seen their power and influence jolting downward. The village thereby lost old leaders. . . .

" . . . Tenant families belonging to the same lineage previously tended to cultivate jointly any lands that any individual among them held on lease from the landlord. . . . As many as 6 or 7 related households often worked together in this way, dividing their investment and profit according to ability and need, and maintaining a common grain store for common ceremonies and joint irregular needs. . . . Agrarian legislation over the past 30 years has made holdings stable and, has thereby eliminated some of the flexible old arrangements for sharing. Bitter experience with individual treachery based on technicalities of the new land laws has now changed the forms of co-operation materially for many clans and lineages. At each new settlement and recently at the granting of proprietary certificates under the Zamindari Abolition Act, group holdings have been more frequently listed in the separate names of all male members of the group. The cultivators welcome such opportunities to sub-divide their lands without the costs of a court fight. Officials advertise the Act as such. Even minor children's names are now entered as separate landholders. In this way, the popular changes in the agrarian structure are quietly accomplishing some of the effects that are most feared and opposed from the Hindu Code Bill. . . .

" Only the clan of the landlords has retained some semblance of effective organization beyond the village and beyond a single generation. But the landlords are a

special case . . . the landlords' wider organization has actually been strengthened by their taking over many Government and party jobs which require a background of wealth and education which only their class possessed. . . .

" . . . Thirty years ago, there was a closer correspondence in Kishan Garhi between the distribution of power and wealth and the ritual ranking of castes. Almost all land rights and all formal political power were in the hands of the top two orders and the four or five top castes. Thirty years of economic and political changes in the larger society have done much to jostle this old structure and to re-arrange wealth and power among different persons and among ritually lower persons. The greater differentiation of economic and of kinship groupings noted above has made it harder for anyone to apply rank attitudes simply to whole castes. Judgements tend to be more individualized and therefore to be less well agreed. Many Brahmins and sweepers would continue to say that all Brahmins are to be respected far above all sweepers; at the same time, most persons in the village would rate one particular sweeper as far more respectable than several particular Brahmins. If such discrepancies are old, they are now commoner. . . .

" . . . By older techniques of organization, each man spoke for himself and for his own kin-group, or else failed to speak and thereby showed his intention to withdraw from co-operation. The tenants and wealthier artisans of 8 other castes in the village are trying to consolidate their economic gains by adopting a ritually higher way of life; they are helped in their efforts by older caste-raising movements outside the village. But most castes and clans cannot even agree to rise together, for they are as divided as are the Brahmins by new rivalries which represent intrusions of the changing economic situation. Many ritual services and requests for alms which were the special claims of some 10 of the castes a generation ago, are now tending to be dropped because they clearly imply an insufferable degree of subordination. . . .

"No one will be surprised if a village whose social relations are structured in the manner of Kishan Garhi does not rapidly develop an active village committee (*gaon panchayat*) or contribute to an effective rural court (*panchayati adalat*) as prescribed in the U.P. Panchayat Raj Act. The village committee that was officially elected includes a fair sampling of many castes. But that committee never meets. The group that actually considers public issues and uses the new authority granted by the Act is none other than the old informal Brahmin caste council, representing one-quarter of the people and one-half of the land rights. The ex-landlords proudly abstain from this body, manœuvring as best they can through the remnants of their followings, or experimenting with alliances among the other disinherited persons. The Brahmin council, acting as village committee, has been unable to establish sufficient trust to collect as much as one-half of its small committee tax or to realize a fraction of the fines it has levied over a period of nearly three years. It was able, with great difficulty, to collect enough straw to repair the roof of the two-room village school. It has been unable to carry through any of the three projects of village improvement which it haltingly undertook. It has achieved punishment of one petty criminal case within the

Brahmin caste, and of two minor crimes by lower persons against Brahmins. In all other cases, there have been dissident opinions which led the committee to appeal to non-official coercive arbitration by the police or by a neighbouring landlord, or to refer the cases to due process of law in higher courts. . . .

" The rural court at Brij Garhi has superior jurisdiction over the village committee at Kishan Garhi and over four other village committee areas in the region. The members of the rural court were elected just as were the village committees, by public show of hands confirming a panel of nominees which had been previously negotiated among the village factions. Almost all the 25 members are landlords. But the landlords' own hierarchy of dominance has been much disrupted of late, and they too, like the litigating tenants of Kishan Garhi, are torn by competition and aligned in factions. Unable now to arbitrate conflicts individually, these rustic magistrates do battle among themselves, using litigants as pawns. Such a contentious court welcomes new litigation, but has little interest in achieving real composition of the cases which come before it. . . . Still the ex-landlords have a smattering of the law and enough valuable higher connexions to guarantee their control of the rural court for some time to come. Tehsildars and sub-divisional officers, deluged now with the new volume of litigation from the rural courts, regard their villagers as depraved, or look back longingly on the days when there was at least one strong man in each village who could be depended upon to settle petty quarrels with a firm hand. The strong men of the past are the amateur advocates of the present." (Mckim Marriott. The *Economic Weekly*, 23 August 1952.)

XVII. A BENGAL VILLAGE

" . . . The village we speak of lies 30 miles from the railroad station of Howrah in the district of Hooghly. . . . local trains running on the small line will take one there from Calcutta in two hours. The village covers about two square miles. . . . The distinction of one village from another is mainly a matter of tradition, and today it is given formal recognition in the governing body of the union board.

" Within the village, members of each of the castes live together in separate neighbourhoods, and these areas are called by the names of the castes living in them. However, there is no uniform rule about this, and members of the same caste may be found to be living together at great distances if it is so convenient, and lower caste people may be found to settle near abouts high caste houses, especially if they are the tenants of the latter. . . .

" The village has 324 residences. Of these, only 5 are brick houses, belonging to families who were affluent in the past. The remainder are clay structures thatched with straw. . . .

" All the villagers are placed on the cultivation of land. Rice is the basic crop grown and is used entirely for consumption. The majority of the people have to buy rice in addition to what they grow. This buying is usually from outside sources. Potato and jute are grown as cash crops and provide ready money. . . .

"The upper class of people have their land cultivated on the share system. The owner of the land supplies seed and manure, while the cultivator supplies the plough and bullocks, and the crop is shared half and half. If one wants the entire produce, the cultivators are paid a daily wage. . . .

"None of the householders owns very large quantities of land. There are no exceptionally rich men in this village. The joint family properties are divided into smaller plots every successive generation. A calculation of actual land ownership is difficult and is the subject of a detailed study. Roughly, land ownership is of three types: (1) Government property such as that owned by the railroads, (2) land for which a road cess is paid to the Government, such as the *brahmottar* lands which were at one time gifts from the Maharaja of Burdwan to the Brahmins of this and surrounding villages, and the *mal* lands owned by the Kayasthas which were acquired formerly from zamindars on lease, and (3) *prajaswatta* land, or land taken out on lease at a fixed rate of *khajna* (rent) to the direct owner of land in the village or to a non-resident zamindar. All the Brahmins have *brahmottar* land. However, other castes may also have such land, for a Brahmin in need will sell his land to anybody and has often done so. The Kayasthas got the *mal* land while working for the zamindars in the old days. Much of the *prajaswatta* land is today owned by the Young Men's Zamindari Co-operative Society Ltd. The former zamindar of this village who resided in Midnapur sold his zamindari to this co-operative society. The latter consists of several non-residents who have taken to the management of zamindari as their profession. Due to the continuous divisions of land, the individual landowners among the higher castes now own about 15 to 30 *bighas* of land. The lower castes usually are tenants on *prajaswatta* land, but many have bought some besides, and are found to own from 2 to 5 *bighas* of land. . . .

"The major cottage industry in this village, as well as in the adjoining villages, is weaving. Weaving is a hereditary occupation among the caste of weavers or *tantis*. . . .

"Weaving is not a profitable occupation today. Due to the high cost of cotton yarn and the higher cost of living, few of the weavers are now independent producers. The majority take orders from *mahajans*, who supply them with yarn and the designs to be woven. The weavers may work on a daily wage or receive a part of the price of the cloth. . .

" . . . the influence of the city is felt and transmitted by the literate upper class members. Working at office jobs in Calcutta by the Brahmins, Kayasthas, and now by a few *tantis*, has become a significant part of the village economic system. As the income from land is not sufficient for self-maintenance, and as individual ownership of land becomes less and less through continuous divisions of ancestral properties, it is imperative that money be brought in from other sources for maintaining the village estates and for retaining the standard of living desired. . . .

"Similar to caste hierarchy everywhere in India, in our village, the Brahmin caste is at the top, and some castes are at the bottom. . . .

" Castes at the bottom make conscious efforts to move up, and their desire for a change of status is recognized by the rest of the community. . . .

" The Brahmin caste enjoys a sacred status of supremacy. . . .

" Formerly, the assembly of older men of each caste gathered to judge any irregularities among its members and in the community as a whole. Such associations, called the *panchayat*, are completely lacking now. Persons of means in each caste may be looked to for leadership, but their decisions are not necessarily binding. In the community as a whole, the literate persons of the upper class are looked up to in critical situations. The formal administration of the village is now in the hands of the union board. Nine villages are conjoined in the union board of which our village is a part. The number is fixed by the district government. . . .

" There is a free primary school in the village. It is attended by boys and girls of this and the neighbouring villages, as there are only 3 primary schools in the entire union. Although the schools are free and open to members of all castes, a look at the list of students shows that the attendance is mainly from the upper castes. . . .

" A few of the Brahmin and Kayastha young men are attending colleges in Calcutta. . . .

" One library has been established in the village through the efforts of the young men and it is endowed with private contributions. . . .

" The village community described here is not only typical of the Hooghly District, but of the whole of rural Bengal within a radius of 40 or 50 miles from Calcutta. . . . " (Jyotirmoyee Sarma. The *Economic Weekly*, 15 August 1953.)

XVIII. SOCIAL STRUCTURE IN THE PUNJAB

" . . . As in many parts of India, the physical unity of the Punjabi village is immediately obvious. Houses of adobe cluster closely together, forming a compact unit. . . .

" One of the difficulties which arises in discussing East and West Punjab is that one feels inclined to speak of the 'Hindu', 'Muslim' or 'Sikh' features of village life. So much of the recent history of the Punjab has served to accentuate the religious differences of its population, that these are the distinctions which immediately leap to mind. My own data do not confirm that these are, in actuality, the most significant divisions to be considered in regard to settlement patterns. . . .

" In the Punjab, economic bonds within the patrilocal joint family have also operated to extend village contacts. With natural limits placed upon the amount of arable land available to each village, and with constantly rising population figures, the strain upon family budgets has been considerable even for landowning joint families. The traditional way of handling this problem has been for one or more younger sons to leave the village and take up employment at a distance. . . . It was always expected that these men would return to their home villages, and their places in their joint

families were kept secure. The result of this has been that hardly a Sikh village today is without its experienced traveller, its old soldier, or its former city dweller.

"Under modern conditions, the strength of Punjabi communal organization should also be taken into account if we are to understand village life. Relationships between Government representatives and the villager before partition were effectually limited to tax collecting and policing. With rationing, and especially since partition, there has been an increase in Government services and contacts in the village both in East and West Punjab. Nevertheless, the opportunities given to the villager for participating in Government have been practically nil. This fact is coupled with the strange paradox that the Punjabi villager is often an expert politician. He spends a great deal of his time assessing personal motivations against a background of possible economic and social advantage. He knows how to play clique against clique and he has a shrewd sense of positive leadership. During the last hundred years, the major outlet for these capacities has been in the communal organizations, all of which have had their political as well as their religious side. . . . Lacking a place in governmental organization, Punjabis have built their own organizations which penetrate to the village level as Government does not. . . ." (Marian W. Smith. The *Economic Weekly*, 21 November 1953.)

CHAPTER 6

THE BACKGROUND OF ECONOMIC ACTIVITY (I): AGRICULTURAL PRODUCTION, COMMUNICATIONS, TRANSPORT AND STORAGE

I. PRODUCTION

Agriculture in the national economy

WE have seen that nearly 70 per cent of the total population of India is either engaged in agriculture or dependent on those so engaged. We have also noted that agriculture and activities ancillary to it account for about 50 per cent of the total national income. In terms of the rural population, earners and dependents who are sustained by agriculture constitute 81 per cent. If attention is confined to self-supporting persons who number 8.57 crores in the rural areas, 80 per cent are agriculturists and the remaining 20 per cent non-agriculturists. Of the former, 77 per cent are either owner-cultivators or tenant-cultivators, 21 per cent are cultivating labourers and 2 per cent are non-cultivating owners of land or agricultural rent-receivers.

The gross value of all agricultural commodities produced during the year 1950-1 is estimated by the National Income Committee at Rs 4,866 crores.[1] Foodgrains, including cereals, pulses and gram, account for nearly 50 per cent of this. The balance pertains to the principal cash crops, miscellaneous cash crops, and fodder and straw. The principal cash crops are oilseeds, sugar-cane, cotton, tobacco and jute. The miscellaneous cash crops include fruits, vegetables, condiments, spices, etc. The gross value of rice is estimated at Rs 1,200 crores, of wheat at Rs 334 crores, of millets at Rs 310 crores and of pulses at Rs 242 crores. Maize, gram, barley and the minor cereals together account for Rs 338 crores. The estimated gross value of oilseeds is Rs 487 crores, of sugar-cane Rs 305 crores, of cotton Rs 113 crores, of tobacco Rs 71 crores and of jute Rs 58 crores. The figure for fodder crops is Rs 53 crores. There is left a balance of Rs 1,356 crores as the estimated gross value of the miscellaneous cash crops and straw.

Acreage and production of major crops

2. Turning now to information given in the publications of the Ministry of Food and Agriculture, we find that the estimated net sown area for the country as a whole during the year 1950-1 was 29.2 crore acres. About 3.5 crore acres were double-cropped; the total sown area during the year was therefore about 32.7 crore acres. Foodgrains were grown on much the larger part of this area, viz., 24.4 crore acres; while cash crops were raised on only 8.3 crore acres. It is interesting to note that, nevertheless, the gross value of cash crops roughly equalled the gross value of food crops. Rice, the main

[1] Exclusive of non-reporting areas.

food crop, covered 7.6 crore acres and accounted for 219 lakh tons. Millets covered 6.6 crore acres and accounted for 95 lakh tons. For wheat, the corresponding figures were 2.4 crore acres and 68 lakh tons. The total production of foodgrains in the country during 1950-1, excluding 'other cereals', was estimated to be 507 lakh tons.

Among cash crops, oilseeds were the most extensively cultivated; they accounted for 3.1 crore acres (or roughly 37 per cent of the total area under cash crops); and the estimated production was 61 lakh tons. For cotton, the area was 1.4 crore acres and the production 33 lakh bales; and for jute over 15 lakh acres and 33 lakh bales. (A bale of cotton weighs 392 lb. and a bale of jute 400 lb.) Sugar-cane, which accounts for over 12 per cent of the gross value of all cash crops, was cultivated on 42 lakh acres or 5 per cent of the total area under cash crops. Fodder crops were grown on 1.12 crore acres; but their gross value was only about 2 per cent of the total for all cash crops. Tobacco cultivation extended over 9 lakh acres and the raw tobacco produced was estimated to be 2.6 lakh tons.[1]

Regional distribution of major crops

3. The pattern of distribution of the main food and cash crops over the different regions of the country may be briefly indicated. Rice is grown mostly in eastern Uttar Pradesh, Madhya Pradesh, Bihar, West Bengal and Assam; in the coastal belts of Madras, Andhra and Orissa; and in the western coastal areas. Wheat is grown mainly in Punjab, PEPSU and western Uttar Pradesh and in some parts of Madhya Pradesh, Bombay and Bihar. Millets are extensively cultivated in the Deccan plateau regions of Madras, Bombay, Hyderabad and Madhya Pradesh and in eastern Uttar Pradesh, and are grown to some extent in Madhya Bharat and Rajasthan. Maize is grown mainly in Bihar, Punjab, Uttar Pradesh and Bombay; while pulses are important in Bihar, Madhya Pradesh, Madhya Bharat, Uttar Pradesh, Rajasthan and Punjab. Among cash crops, cotton is cultivated mostly in the Gujerat-Kathiawar and the Deccan plateau regions, including parts of Bombay, Madhya Pradesh, Hyderabad and Madras. The cultivation of jute is largely confined to West Bengal, Assam and Bihar; and of tobacco to the Guntur District of the Andhra State and to the Belgaum and Kaira Districts of Bombay. For oilseeds, the main area of cultivation is the south Deccan region covering Hyderabad and parts of Bombay, Madras and Mysore; subsidiary areas are in Uttar Pradesh, Saurashtra and Madhya Pradesh.

Factors affecting agricultural production

4. The factors affecting agricultural production are very many. Some of these, such as the adoption of right techniques and right implements and the use of good seed and good manure, may be said to be within the choosing of the cultivator, provided--and this is an important proviso - it can also be said that the knowledge of the means, the means themselves, and the credit to secure the means, have been rendered accessible to him by those who are in a position to do so. It has at the same time to be remembered that, in much the larger part of the country, the labour of the cultivator is dependent for its annual fruition on something which is outside anyone's control, namely, rainfall. The intensity of rainfall varies widely within the country. In the western Rajasthan desert region, it seldom exceeds 15 inches a year, whereas in parts of Coorg and

[1] *Final Report of the National Income Committee*, 1954, p. 36.

Travancore-Cochin more than 200 inches and in Cherrapunji in Assam more than 400 inches of rainfall have at times been recorded. In general, the Western Ghats coastal region, Assam and some areas in northern Uttar Pradesh, get above 75 inches; eastern Madhya Pradesh, Orissa and West Bengal get about 50 to 75 inches; parts of Uttar Pradesh, Vindhya Pradesh, Madhya Pradesh, north Bombay, Madras and Hyderabad get about 30 to 50 inches; while in eastern Bombay, eastern Rajasthan, and parts of Punjab and PEPSU the average rainfall is about 15 to 30 inches per annum.

In places where rainfall is scanty or its distribution ill-timed, irrigation obviously assumes special importance. About 18 per cent of the country's cultivated area is now irrigated. Relatively intense irrigation—about 25 to 45 per cent of the total cultivated area—is found in the Punjab, PEPSU, Uttar Pradesh, Bihar and parts of Madras. Instances of low irrigation (approximately 9 to 13 per cent of the total cultivated area) are Malabar-Konkan, western Orissa, eastern Madhya Pradesh and south Deccan. Examples of poor irrigation are north Deccan, Gujerat-Kathiawar, western Madhya Pradesh, Vindhya Pradesh and Madhya Bharat.

Agricultural development in the Plan

5. The First Five Year Plan seeks a substantial increase in the production of both food crops and commercial crops. The means envisaged include soil conservation, land reclamation including tractor-ploughing, improved cultural techniques generally, major and minor irrigation, and the larger and more intensive utilization of better seed and better fertilizers. The Plan contemplates a total outlay of Rs 360.4 crores, not on these alone, but on what might be termed agriculture and community development as a whole (excluding, however, the big programmes of irrigation):

	(Rs crores)
Agriculture	184.2
Veterinary and animal husbandry including dairying	22.3
Forests	11.7
Co-operation	7.1
Fisheries	4.6
Rural development	10.5
Community Projects	90.0
Local works	15.0
Programme for scarcity-affected areas	15.0
Total	360.4

(Source: *The First Five Year Plan*, p. 88.)

Irrigation projects

6. Projects confined to irrigation account for another Rs 168 crores, while multi-purpose projects, which combine power and irrigation, involve a further outlay estimated at Rs 266 crores. The additional area to be brought under irrigation by the major projects alone (multi-purpose as well as other) is about 85 lakh acres. The more important of these are Bhakra Nangal, Damodar Valley and Hirakud, which together are expected to cover 65 lakh acres. The

minor irrigation projects which include construction of dams, channels, tube-wells, tanks, etc., are expected to irrigate about 83 lakh acres:

		Lakh acres
1.	Dams and channels	44
2.	Wells (new and repaired)	16
3.	Tube-wells	7
4.	Tanks	8
5.	Pumping installations	8
	Total	83

(Source: *The First Five Year Plan*, p. 221.)

Thus, the total area expected to be brought under irrigation by means of major and minor irrigation projects is of the order of 168 lakh acres (or more than a third of the net area actually irrigated in 1949-50). This is exclusive of 30 lakh acres to be served by minor irrigation works for which an additional grant of Rs 30 crores is to be given by the Centre. It has also to be mentioned that there are 5 new major projects, since approved, on which only 20 per cent (Rs 40 crores) of the total cost is to be spent during the period of the Plan. These are the Kosi Project in Bihar, the Koyna Project in Bombay, the Krishna Project for Madras and Hyderabad, the Chambal Project for Madhya Bharat and Rajasthan and the Rihand Project in Uttar Pradesh.

The figures of cost, especially for minor irrigation works and among them wells in particular, do not reflect the total cost involved, since the cultivators and the village community generally have to contribute their share in cash or labour. What is even more important, neither these figures nor those given in some of the ensuing paragraphs include as a rule the additional 'private' cost to the cultivator himself, e.g., on the preparation of his land for irrigation.

Land reclamation schemes

7. Land reclamation schemes are estimated to bring about 73.8 lakh acres under the plough. Of these, 14.2 lakh acres are to be reclaimed by the Central Tractor Organization, 12.0 lakh acres by the State Tractor Organizations, 10.8 lakh acres by co-operatively or privately owned tractors and the balance of 36.9 lakh acres by means other than tractor ploughing.

Chemical fertilizers and farmyard manure

8. The Plan envisages a large increase in the production of both ammonium sulphate and superphosphate. In 1950-1 the production of ammonium sulphate was of the order of 46,000 tons and of superphosphate 55,000 tons. With increased production at Sindri and in the fertilizer factory in Travancore-Cochin, the annual output is expected to increase to 4.5 lakh tons of ammonium sulphate and 1.8 lakh tons of superphosphate. The total quantity of farmyard manure used at present probably does not exceed 40 crore tons. There are schemes for ensuring a large expansion of the use of this type of manure. Urban compost available for distribution to cultivators was 10.6 lakh tons in 1950-1; it is estimated to have increased to 13.5 lakh tons in 1951-2 and is expected to increase to about 30 lakh tons by 1955-6.

9. The nucleus production of improved seed is generally carried on in Government farms, while multiplication and distribution are sought to be ensured by co-ordination between the State and the farmer. In a few instances, the distribution takes place through co-operative societies. On the whole, the purity of the nucleus tends to be impaired in the present system of multiplication and distribution. The Planning Commission have recommended measures to ensure that a larger number of cultivators are able to obtain pure seed direct from the State.

Improved seed

10. With caution as to the limitations within which all-India averages are significant, mention may be made of the light which the Rural Credit Survey throws on the annual cash expenses of the cultivator on seed and manure. The relevant amounts are about Rs 29 and Rs 23 respectively; these form roughly 10 per cent and 8 per cent of the total cash farm expenditure of an average cultivator. The value of the increased quantity of chemical fertilizers planned to be produced in the country will be of the order of Rs 15 crores, assuming the value of ammonium sulphate to be about Rs 290 per ton and that of superphosphate Rs 250 per ton. The estimated number of cultivating families in the country being about 358 lakhs, this would mean an average additional expenditure of about Rs 4 per cultivating family. This, of course, is a mere approximation for the hypothetical 'average' case; the actual expenditure of the individual cultivator on chemical fertilizers will obviously depend on a number of factors such as the variety of crop cultivated, the type of soil, the size of the cultivated holding, the availability of better or cheaper alternatives, and finally the accessibility to adequate credit. It is difficult to estimate the additional expenditure on the purchase of improved seed. At present, an average cultivator spends on purchased seed roughly half the money value of the seed he obtains from his own farm.

Expenditure on seed and manure

11. The total cropped area in the country is expected to increase by about 100 lakh acres at the end of the Plan's initial five years. Projects for land reclamation and land development alone account for nearly three-fourths of the increase thus forecast. Expected increases in the acreages of individual crops are as follows:

Increase in acreage and production of major crops

(Area in lakh acres)

	1950-1	1955-6
Rice	760	800
Wheat	240	270
Other cereals	930	900
Gram and pulses	472	490
Cotton	146	180
Jute	14	20
Sugar-cane	42	45
Oilseeds	267	270
Fruits and vegetables	50	60
Other crops	250	240
Total	31,71	32,75

(Source: *The First Five Year Plan*, p. 214.)

The total production of foodgrains in the country is expected to be raised by about 7.6 million tons over the 1949-50 level under the following heads:

	(Million tons)
Major irrigation schemes	2.0
Minor irrigation schemes	2.4
Land reclamation schemes	1.5
Improved seeds	0.6
Fertilizers and manures	1.1
Community Projects	0.5
	8.1
Less on account of diversion to non-food crop cultivation	—0.5
Total	7.6

(Source: *The First Five Year Plan*, p. 217.)

The targets for increased production in foodgrains, cotton, jute, sugar-cane and oilseeds are as shown in the following table:

	Unit	Production in 1950-1	Target 1955-6	Expected increase in production	Percentage increase
Foodgrains[1]	.. million tons	52.7	61.6	7.6[2]	14
Cotton	.. lakh bales	29.7	42.3	12.6	42
Jute	.. lakh bales	33.0	53.9	20.9	63
Sugar-cane	.. million *gur* tons	5.6	6.3	0.7	12
Oilseeds	.. million tons	5.1	5.5	0.4	8

(Source: *The First Five Year Plan*, p. 75.)

1 Including gram and pulses.

2 The estimated increase of 7.6 million tons is expected over the 1949-50 level when production was estimated at 54 million tons.

Progress of the Plan

Some details of the progress of the Plan during the first two and a half years of its working have been published by the Planning Commission sometime ago. Major irrigation schemes under the Plan are estimated to have covered about 15 lakh acres, and minor irrigation schemes about 20 to 25 lakh acres, up to the end of 1952-3. The Central Tractor Organization is reported to have reclaimed 5 lakh acres of *kans*-infested land during the first two and a half years of the Plan. Promise, and not yet of course aggregate performance, gives significance to the Japanese method of cultivation. This last, and in fact all schemes of increased agricultural production, will require for their successful working a very considerable expansion of the credit facilities now available to the cultivator.

Mainly owing to a favourable season in most parts of the country, the production of foodgrains in 1952-3 is estimated to have increased by 4.4 million tons over the 1949-50

level. Of this, 1.5 million tons are accounted for by rice and wheat. The increase has made possible an appreciable reduction in the import of foodgrains. The area under cotton is estimated to have increased from 146 lakh acres in 1950-1 to 157 lakh acres in 1952-3. During 1953-4 a further increase of 6.5 per cent in acreage has been reported; and the production of cotton is expected to have increased by about 7 lakh bales over the 1950-1 level. In jute, however, there was a reduction in acreage during 1952-3. There has also been a fall in the production of sugar-cane in comparison with the 1950-1 level.

Co-operative farming

13. It may be of interest at this stage to consider the part--admittedly very small--played by Co-operation in the sphere of agricultural production, that is to say, in farming principally, and secondarily in irrigation etc., as aids to better production.[1] Co-operative farming, on a more or less experimental scale, has been initiated by certain State Governments, e.g., Bombay, Uttar Pradesh and Madras. In Bombay, the assistance offered by Government consists of a number of items: the free services of trained persons to act as managers, remission of land revenue for one year, subsidies for seed, manure and implements, subject to a maximum of Rs 1,500 during the first year and Rs 750 during the second and third years, loans at concessional rates of interest for purchase of heavy machinery, and short-term loans to a limited extent, besides special assistance for construction of godowns and barns by way of loans and subsidies. At the end of 1951-2 there were 224 co-operative farming societies in the Bombay State. The total membership was 5,994 and the area covered 62,237 acres. Loans totalling Rs 6.30 lakhs and subsidies totalling Rs 3.45 lakhs were made to various co-operative farming societies up to the end of 1951-2. Some of these societies undertook lift irrigation schemes for which an amount of Rs 2.22 lakhs was advanced as loans and of Rs 1.77 lakhs as subsidies. Uttar Pradesh had 64 co-operative farming societies at the end of June 1952. Of these, 42 societies with a total membership of over 1,500 have started work. Madras had 30 land colonization societies at the end of 1950-1. Of 14,201 acres of land assigned to the societies by the Madras Government, 10,042 acres have been reported as rendered fit for cultivation. The State Government gave interest-free loans amounting to Rs 28,320 and free grants to the extent of Rs 33,957 during the year 1951-2.

Irrigation and seed societies

14. In most States, there are irrigation, seed and similar societies, connected with agricultural production, though not all those registered can be presumed to be functioning. Irrigation societies are usually formed by small farmers who join together for construction of dams or for installing machines for lifting water from wells or rivers. In Bombay, there were 179 lift irrigation societies in 1952 with a membership of 9,021. In West Bengal, 822 irrigation societies are reported to have been formed; together, they irrigate about 45,000 acres of land. In Uttar Pradesh, 'development unions' composed of 10 to 15 multipurpose societies arrange for the distribution of seed through seed-stores; the members receive loans of improved seed and repay on the *sawai* basis, i.e., the repayment is one and a quarter times the quantity advanced. The seed distributed by such unions is said to have been 12.10 lakh maunds in 1951-2.

[1] The data regarding co-operative institutions given in this chapter and the two which follow are taken mainly from the information supplied by the Registrars of Co-operative Societies from time to time to the Agricultural Credit Department of the Reserve Bank.

Vegetable and fruit growers' societies

15. There are vegetable and fruit growers' societies, engaged in production or marketing or both, in many States. Most of these societies, however, concern themselves with aspects of production rather than those of marketing, the latter presenting many difficulties which they often find themselves unable to surmount. The vegetable growers' societies in Bihar give intensive training to their members in the growing of improved varieties of vegetables; some undertake lift irrigation schemes also. In Delhi, there are 11 vegetable growers' societies which supply improved varieties of seed and manure to their members and also arrange for the irrigation of their land; an appreciable increase in the area under vegetable cultivation and in production is reported as a result of the activities of these societies. In Himachal Pradesh, potato-growers have organized themselves into co-operative societies in the districts adjoining the Simla Hills where this crop is important. The Kailash Multi-purpose Association, to which we make a reference in Chapter 7, is a federation of 17 societies of this type. In Madras, the fruit and vegetable growers' co-operatives, which number 15, supply manure, seeds and other agricultural requirements to the members. In Punjab, there are 135 fruit-growers' societies, most of which are financially weak and are therefore not very effective in increasing the fruit production of the State. In Orissa, there are 7 potato-growers' societies with a membership of 1,279. These societies are engaged in distribution of seed and manure to the members. In Bombay, under a special scheme financed by the central financing agencies, improved potato seed is imported by certain co-operative societies from Simla and other potato-growing centres and then distributed to the member-cultivators.

II. COMMUNICATIONS AND TRANSPORT

Roads: the existing position

16. As will be seen later, it is usual for a substantial portion of the crop to be sold in the village itself and to be handed over to the trader shortly after the harvest. This is only another way of saying that there is great lack of organized marketing facilities for the cultivator. The inadequacy extends to transport and communications. Cheap and adequate transport, which is essential for advantageous marketing, is impossible without good roads. Few roads exist in rural India; fewer still from village to marketing centre; and those which do exist are little more than *kutcha* roads unusably bad in the rains and unspeakably bad all the year round.

India has nearly 2,49,000 miles of roads other than municipal; about 90,000 miles are surfaced and the rest unsurfaced.[1] The available data for different types of roads are as given below:

	Miles (000's)
Metalled roads	
Bituminous	10.7
Concrete	0.8
Water-bound macadam	78.6
	90.1
Unmetalled roads	158.8
Total	248.9

[1] *India—A Reference Annual*, 1953—Ministry of Information and Broadcasting, Government of India, p. 324.

The total length of extra-municipal roads in Part A States was about 1,81,000 miles (according to information available for 1947-9) of which roughly 53,000 miles were maintained by the Public Works Department and the balance of 1,28,000 miles by local bodies.

At a conference of Chief Engineers held at Nagpur in 1943 to consider possibilities of road improvement, a long-term plan of road development was evolved of which it is unnecessary to go into details, except to say that, when eventually completed, it was to have cost Rs 372 crores. Till 31 March 1950, under such part of this plan as was adopted, the amount expended was only Rs 27.1 crores, owing apparently to lack of materials and lack of trained men, among various other lacks.

Meanwhile, from 1 April 1947 the Central Government had assumed responsibility for the development and maintenance of national highways; and during the 5 years ended 31 March 1952 about 160 miles of new roads have been laid, 1,315 miles of existing roads improved and 17 large bridges and several small bridges constructed. The total expenditure during this period was about Rs 9 crores.

Roads and the Five Year Plan

17. The Five Year Plan provides for an expenditure of Rs 27 crores in part implementation of a programme for the development of national highways in the country. The mileage under national highways which was 11.9 thousand miles in 1950-1 is to be increased to 12.5 thousand miles. This includes the construction of 450 miles of new roads and the improvement of about 2,200 miles of existing roads. In addition, 48 large bridges are to be constructed, along with several smaller ones. About two-thirds of this programme is scheduled to be completed during the five year period. The increase in State roads envisaged in the Plan is from 17,595 miles of roads existing in 1950-1 in Part A and Part B States to 20,582 miles in 1955-6. The mileage of unmetalled roads which was about 2,725 miles in 1950-1 is expected to be reduced to 963 miles. The total expenditure proposed under this head is roughly Rs 73.54 crores. Some of the State roads are described as likely to assist production, especially agricultural production. Thus, national highways and State roads may be said rightly to have been given a not unimportant part in the programme of development. In contrast, village roads make little more than a minor appearance in the Plan. The main item is the construction of 16,000 to 17,000 miles of *kutcha* roads as part of the Community Development Projects. In addition, the Roads Organization (it is stated) are prepared to spend Rs 15 lakhs initially on an experimental 'model' scheme for the co-operative development of village roads. For the rest, one can only infer that village communications have their best hope of inclusion in that sector of the State Governments' budgetary activities which, the Planning Commission, unable to give them its unqualified approval, sometimes refers to as 'non-planned development'. The Plan also provides for an additional expenditure of Rs 4.24 crores by the Central Government for some selected roads other than national highways. The total expenditure by the Central and State Governments during the five year period is thus to be of the order of Rs 108.88 crores.

Means of transport

18. The means of transport of agricultural produce from village to market is still largely of course the bullock cart. Ponies are used in some of the hilly or mountainous regions; while in some instances, as in Rajasthan, camels continue to lend picturesqueness without corresponding efficiency. Finally, there are villages so situated as to make it necessary for man himself to be the beast of burden. Mechanized transport, a far cry from these more usual condi-

tions, has therefore no present relevance except for the relatively few villages which, being very near the bigger marketing centres, happen to be served by fairly good roads. In such cases, *ad hoc* mechanized transport is usually arranged by the larger cultivators or by the traders who take delivery of the produce in the village. It is in regard to perishables such as fruits, vegetables, etc., consumed in relatively big urban centres, that transport by lorries has shown significant increase in recent years. It is reported that such use of mechanized transport has resulted in considerable saving of expenses.

The number of goods vehicles in 1950-1 was estimated at 85,509,[1] while the number of bullock carts according to estimates available for 1951 was 96.3 lakhs.[2] The First Five Year Plan provides for an expenditure of Rs 8.97 crores on State road transport services. It is not known what proportion of this is proposed to be spent on goods services.

Co-operation and transport

19. Co-operatives play a very small part in transport. State patronage was extended to a few transport societies started at the end of the war for the benefit of ex-servicemen. Punjab, leading the other States in this regard, had 17 co-operative transport societies in 1951-2; these possessed 83 goods carriers and 311 passenger vehicles; the routes of operation were over 336 and the profit for the year was Rs 8.75 lakhs. Bombay has 31 transport societies, and Madras has 13; in Madhya Pradesh, Travancore-Cochin and Delhi there are 11, 3 and 2 transport societies respectively. Most of these are organized for ex-servicemen. The societies usually run passenger services; some have a few goods vehicles.

III. STORAGE

Storage

20. The lack of storage is part of a wider deficiency, namely, the lack of orderly marketing, co-operative or other. Such storage as exists is mostly for cotton, jute and similar commercial crops and is largely in the hands of traders and processing concerns. Before the Second World War, the storage available was largely in the form of private godowns owned by the more substantial cultivators, the wholesalers, etc. During the war, the different Governments requisitioned a large number of private godowns for stocking their foodgrains; they also constructed a certain number of new godowns. Several of these godowns, old or new, private or State-owned, are still in the possession of Government. According to information available for the year 1950 the storage capacity of godowns for foodgrains in the possession of the Central Government was 65,000 tons, and that of godowns in the possession of the State Governments 1,212,000 tons. Information is not readily available of the total godown space in private possession. According to the data given in the *Report of the Foodgrains Investigation Committee* (1950), it would appear that the capacity of private storage made available to Government was roughly equal to that of godowns constructed by Government.

Co-operation and storage

21. In the total picture, the storage capacity of co-operatively-owned godowns occupies little more than part of a corner. Some of the State Governments advance loans and give subsidies to co-operative societies for the construction of godowns. In Bombay, during the 3 years, 1949-50 to 1951-2, loans amounting to Rs 4.8 lakhs were given to 26 societies; there were

[1] *India—A Reference Annual*, 1953, p. 325.

[2] *Basic Road Statistics of India*, Third (1952) Supplement, Roads Organization, Ministry of Transport, Government of India.

also subsidies, totalling Rs 50,000, to 16 societies; and the godowns actually constructed by societies during this period were 26 in number. In Madras, 5 marketing societies were given grants amounting to Rs 48,110 and loans amounting to Rs 30,510. Besides, 21 rural credit societies and an urban bank were sanctioned subsidies amounting to Rs 1,08,753 and loans totalling Rs 36,500. In all, 62 godowns have been constructed by the marketing and rural societies in the State. In Orissa, Rs 50,000 were given as loans, and Rs 42,500 as subsidies, to societies; in some instances, free grants and loans at concessional rates were given; and about 15 godowns are reported to have been constructed. In Punjab, Uttar Pradesh and Rajasthan, co-operative societies are reported to be using rented godowns.

Prospects for warehousing development

22. In an enquiry conducted by the Reserve Bank of India in 1952, information was collected by means of a questionnaire as to the state of existing godowns and their suitability for conversion into licensed warehouses. The replies indicated that some of the Government godowns could be readily converted into regular warehouses so far as the technical quality of the accommodation was concerned. Some, however, are not suitable for various reasons, e.g., they are situated at too great a distance from trading centres or require very considerable repairs including, in some cases, major structural alterations. The godowns owned by co-operatives were reported in most instances to be not fit for conversion into warehouses, the generality of them being makeshift structures built out of makeshift resources. Private godowns were as a rule inconveniently situated (e.g., in residential houses) and in many cases were structurally defective. The replies further indicated that in very few marketing centres in the country could storage accommodation be said to be anywhere near adequate.

At the same time, the need for an extensive network of godowns and warehouses and for the establishment of 'licensed warehouses' at suitable centres has been emphasized by various committees and commissions. For obvious reasons, produce in a good godown is produce which can attract commercial credit from banks. Moreover, under section 17, sub-section 4(*d*), of the Reserve Bank of India Act, the Reserve Bank is authorized to make loans and advances, "repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of promissory notes of any scheduled bank or state co-operative bank, supported by documents of title to goods, such documents having been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for bona fide commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops". The Reserve Bank will accept as collateral, not the goods pledged with and in the custody of the scheduled or state co-operative bank, but only the title to goods (i.e., receipts issued by independent warehouses). In the virtual absence of licensed warehouses, the sub-section has hitherto remained inoperative.

Seven of the State Governments, namely, Bombay, Bihar, Hyderabad, Madras, Madhya Pradesh, Mysore and Travancore-Cochin have passed Warehouse Acts on the lines suggested in a Draft Warehouse Bill circulated by the Reserve Bank to all State Governments. However, with the exception of a few isolated instances in Madhya Pradesh and Bombay, no licensed warehouses have so far been established in any State.

CHAPTER 7

THE BACKGROUND OF ECONOMIC ACTIVITY (II): AGRICULTURAL PROCESSING AND MARKETING

I. PROCESSING

Processing of agricultural produce

AFTER a crop is harvested and before it reaches the consumer, it is subjected to one or more forms of processing which differ for different crops and for different uses and preferences on the part of the consumer. A single form of processing may consist of more than a single operation carried out by different parties at different stages. Thus, paddy may be threshed and winnowed by the cultivator, but husked by the miller, the trader or even the consumer. In the more prevalent forms of processing of the major crops there is a broad uniformity in this country, coupled with considerable diversification in the detail of operation; and not unoften the detail, no less than the larger pattern, is of economic significance to the producer. Since, nevertheless, it would be out of place to enter into detail for our present purpose, all that is attempted here is a very brief indication of the principal methods of processing employed in respect of the more important crops, food as well as commercial, the main agencies engaged in the employment of these methods and, where the agency is a processing concern and to the extent information is readily available, the number and capacity of the units thus employed.

Rice

2. The main form which the processing of rice takes is the husking of paddy. Sometimes the paddy is parboiled before it is husked. The husking may be manual as in hand-pounding, or by a power-driven machine as in a rice mill. It is estimated that there are over 10,000 rice mills of varying capacity scattered over the country and that they process roughly 25 per cent of the total produce. The bulk of the grain is, therefore, hand-pounded. Of the total marketable surplus, it is estimated that some 56 per cent reaches the consumer in the form of paddy and the balance as rice.

Wheat

3. Threshed and winnowed, wheat is still covered with earth; hence, in the wheat market, a large number of labourers are employed to clean it and dress it before passing it on to the retailer or the consumer. The presence of impurities is an important factor in its effect on the price of the grain. In some areas, consumer preference is for wheat flour or *atta;* and, where the demand for the grain in this form is considerable, it is usually at the wholesale stage that the conversion of wheat into *atta* is effected by *chakkies* which are generally power-driven.

4. The processing of groundnut, the most important of the oilseeds, consists in removing the kernel from the nut by mechanical decorticators or by hand-shelling. Nuts for eating are generally mixed with hot sand and roasted and the kernels then taken out. About 70 to 80 per cent of the marketable surplus is stated to be taken to the market by the producer himself; the balance is sold in the villages in the form of nuts in shell. Out of a production of approximately 40.4 lakh tons of oilseeds (groundnuts, sesamum, castor, linseed, rape and mustard seed) during the year 1951-2 it is estimated that 32 lakh tons were used in the manufacture of vegetable oils and the balance utilized for consumption in the country or for export abroad in the form of nut or kernel.[1] With this 32 lakh tons may be compared the rated capacity of village *ghanies* which was estimated at 10 lakh tons in 1950-1.[2]

Oilseeds

5. The operations involved in the processing of tobacco are curing, sorting, 'bulking' (for fermentation) and reconditioning, followed by bundling and packing. In some parts of the tobacco-growing districts of Bombay, the standing crop is sold to the buyer in readiness for curing. The system of selling green leaf to expert curers is popular in Guntur (Andhra) and Mysore. A common practice, however, is to sell the cured leaf after it is stored in village barns. Virginia tobacco grown in the Guntur area is usually contracted in advance for sale and delivered in the form of cured leaves. Not being in a position to grade the crop, the cultivator is usually unable to prevent undervaluation by the buyer and consequent loss to himself.

Tobacco

6. Sugar-cane is sold for being made into sugar or *gur*. Extraction of juice from the cane is largely done in the factories. More than half the crop is used for making *gur*. Quite often, the cultivator himself makes the *gur*. About 90 per cent of the cane used for *gur*-making is crushed in bullock-driven three-roller iron mills; and about 7 per cent is crushed by wooden or two-roller iron mills. The latter are generally found in some of the more backward areas of Punjab, Uttar Pradesh and Hyderabad. There are, however, large sugar-cane farms which employ power-crushers. The average cultivator is not able to own a crusher and, therefore, hires it. The number of cane-crushers in India was estimated to be 5.41 lakhs in 1951. Of these, about 21,000 were power-driven.

Sugar-cane

The total production of sugar-cane for the year 1951-2 was estimated, in terms of raw sugar, at 60.7 lakh tons. It is reported that 139 sugar-cane factories were engaged in the processing of sugar-cane into sugar, and that the crystal sugar they produced was 14.9 lakh tons. *Khandsari* sugar accounted for 1 lakh tons and *gur* for 31 lakh tons. A large part of the crop was thus processed by the indigenous methods associated with *gur*-making. Out of the 139 factories, only one is known to be owned by the producers themselves on a co-operative basis.

7. The bulk of the cotton produced is disposed of by the growers as *kapas*. What is ginned by the cultivators themselves is a negligible fraction of the total. A part of the crop is sold in the village to itinerant traders; the rest is brought by the producer to the marketing place which is sometimes the yard of a ginning factory and infrequently a regulated market. During

Cotton

[1] *Agricultural Situation in India*, October 1953, p. 503, published by the Ministry of Food and Agriculture, Government of India.

[2] *The First Five Year Plan*, p. 322

the year ended 31 August 1952 there were 3,023 ginning and pressing factories; the number of bales ginned was 22.7 lakhs, and of bales pressed 33.1 lakhs. The ginning and pressing charges constitute a fairly substantial proportion of the final price.

Jute

8. The two main operations in the processing of jute are (*a*) 'steeping' which involves the immersing of bundles of jute plants in running water in order to soften the tissues of the plants, and (*b*) the stripping of the fibre. The processing is done by the cultivator who generally engages paid labour for the purpose. The fibre is then dried in the sun and sold in bundles at *hats* or at marketing centres. Before the fibre can be used by the factory, it has to be graded, pressed and baled and these functions are carried out by intermediaries who, incidentally, in fixing the cultivator's terms, take advantage of his unfamiliarity with the technical aspects of grading and ignorance of the prices commanded in the wholesale markets.

Co-operation and processing

9. What part do co-operatives play in the processing of the more important crops? Very few indeed of the 3,000 odd cotton ginning and pressing factories are owned by the producers themselves on a co-operative basis, and most of these are situated in the Bombay State which has 14 co-operative ginning and pressing societies. During the year 1951-2 these societies had a membership of 8,453 and a working capital of about Rs 56 lakhs. Over 6 lakh (Bengal) maunds of cotton were ginned by them and their total profits for the year amounted to nearly Rs 0.67 lakh. One of the most outstanding of these societies is the Farmers' Co-operative Cotton Ginning and Pressing Society at Surat, which was established in 1934. The origin of some of these ginning societies is to be found in the hostility of private ginners and the fact that in certain instances they had combined to raise the ginning charges for *kapas* marketed through co-operative cotton sale societies.

A few co-operative societies in West Bengal, Madras, etc., are known to be running rice mills.

The Pravara Sahakari Sakhar Karkhana at Pravaranagar (Loni) in Ahmednagar District in the Bombay State is a very significant example of the successful working of a producers' co-operative which manufactures sugar from sugar-cane grown by its members. The details of its working have been given in Chapter 4.

II. MARKETING

Sales in villages

10. If we take all cultivators and all crops all over the country, and consider that portion of the produce which the cultivator parts with that is to say, by and large, the 'marketable surplus'—would it be possible to say with some certainty whether the bulk of this is sold by him in the village or outside the village? To the limited extent the Survey enables us to answer so broad a question—and the answer, even if passably correct for all India, would, of course, not be true for each crop in each region—it would appear that the larger part of the produce is sold within the village. Thus, in Demand Questionnaire No. 1, information was sought as to where the crop or grain was delivered to trader or commission agent. Information could be obtained for only 63 per cent of the transactions of

sale-cum-delivery; and, in regard to these, it was found that 65 per cent reached completion in the village itself. For the first five deciles of cultivators, as also for the remaining five, the proportion of sales in the village was round about 65 per cent of the total. Since the figure is thus applicable to the larger producers as well, it would be reasonable to infer from it that a substantial part of the produce is usually sold in the village itself. The *Report on Rural Marketing and Finance* published by the National Planning Committee in 1947 gives the following information:

> "In the Uttar Pradesh 30 per cent of the wheat grown is sold in the village, in Lyallpur[1] the percentage is 52, while in Attock District[1] it is as high as 98. As for paddy, 89 per cent is sold in the village in Bihar, 72 in Bengal[2] and 89 in Madras. In the case of cotton, the village sales amount to . . . 81.4 per cent in Khandesh, 51 in Central Gujarat, 80.5 in the Punjab.[2] With regard to the sale of linseed, it has been estimated that the all-India average of the percentage taken to the market for sale by cultivators themselves is only 20 as against 40 per cent sold by landlords and 35 per cent by *beparis*."[3]

Purchases by traders

11. So much for where the produce is sold. Of equal importance is it to have some idea of to whom it is sold. The data of the Survey indicate that, with the exception of a few of the selected districts, the buyers at the first stage are largely traders and commission agents, and, to a very limited extent, manufacturers. What is sold to them far exceeds that which is sold to Government and co-operatives or direct to consumers, even if all the three latter are put together. Taking the selected districts as a whole, the *value* of the produce sold to traders and commission agents formed about two-thirds of that to all agencies.

As a working conclusion, therefore, it would not be far wrong to assume that a substantial portion of the produce is purchased in the village itself by traders in agricultural commodities.

Trader-cum-moneylender and cultivator

12. It is relevant to examine the position which the trader occupies in relation to the fulfilment of the credit requirements of the cultivator. The trader may be wholesaler, general merchant or commission agent; he may be a village trader, but also lend money, and thus present the difficult problem of disentangling his transactions in the one capacity from those in the other; or he may be an urban trader whom it is not always easy to distinguish from urban moneylender or even indigenous banker. We have to keep in mind these difficulties of hard and fast distinction especially as they present themselves to the cultivator to whom questions are put; for, it is only then that the statistical data will begin to assume their true perspective. The borrowings of cultivators from traders and commission agents were 6 per cent of the total borrowings of cultivators from all sources; while the borrowings from moneylenders, both agriculturist and professional, were 70 per cent. It was found in the enumeration of 'supply agencies' that 37 per cent of the village moneylenders and 83

[1] Now part of Pakistan (West Punjab).

[2] Undivided.

[3] P. 42.

per cent of the urban moneylenders were also traders. It was further found, in an attempt to ascertain the classes of moneylenders (according to residence or location of place of business) from whom the cultivators borrow, that 58 per cent of the total amount borrowed from professional moneylenders was from professional *village* moneylenders, 17 per cent was from professional *urban* moneylenders, and the balance from moneylenders whose place of business was unspecified. Then, there are the non-professional moneylenders, usually the large cultivators between whom and the professional moneylenders there is a marginal 'blurring' in which it is difficult to distinguish one from the other. It is revealing that among village moneylenders (as a whole) 82 per cent, and among urban moneylenders (as a whole) 49 per cent, were reported to be agriculturists. We thus arrive at a picture, of which only the broad outlines emerge from the Survey, of a large body of agriculturist and professional moneylenders, rural and urban; the distinguishing feature of this body is the combination of the activities of moneylending and trading; but, at the margins, this group of trader-cum-lender shades off into a relatively small group of non-trading village moneylenders on one side, and a still smaller group of non-trading urban moneylenders on the other side. Since we have earlier concluded that the larger part of the produce may be assumed to be sold in the village to the trader, it seems reasonable to take that conclusion a step further and make the working assumption that the marketing of agricultural produce is largely in the hands of a body of men who, as distinguished from Government and the co-operatives, represent private interests, and who control both the sources of credit and the disposal of the produce. Often enough, therefore, the cultivator's position is that of having to bargain, if he can, with someone who commands the money, commands the credit, commands the market and comes with the transport.

What we have given above is the general picture. Conditions naturally differ for different regions and different crops. The following are a few glimpses provided by the Survey of the conditions as they obtain in some of the selected districts. The figures concerning crop acreage are taken from publications of the Ministry of Food and Agriculture, while the rest of the data pertain to the Survey.

Among districts with the highest percentage of cash crops are Quilon and Malabar in the south. In Malabar, 53 per cent of the area is under cash crops. In this district, 57 per cent of the total credit to cultivators was supplied by traders and about 93 per cent of the sale transactions of the cultivators was with traders. In the majority of these sale transactions, the produce was taken delivery of by the trader in the village itself. In 93 per cent of the cases the price was settled at delivery and in the remaining instances the price was settled before delivery of the produce. Borrowings from Government and co-operatives accounted for slightly less than 1 per cent of total borrowings. The average borrowings per cultivator amounted to Rs 406 and the debt outstanding at the end of the year was as high as Rs 625.

In Quilon, 67 per cent of the area is under cash crops. The traders supplied 29 per cent of the total credit to cultivators. About 71 per cent of the sale transactions were with traders; delivery of produce took place in the village in 78 per cent of the cases. The price was settled at the time of delivery of produce in 76 per cent and before delivery in 22 per cent of the reported cases (the negligible balance representing instances in which price remained unsettled even after delivery).

Cuddapah and Kurnool present a different picture. Of the total credit, 62 per cent in Cuddapah and 66 per cent in Kurnool were accounted for by agriculturist moneylenders. In both districts, 33 per cent of the sown area is under cash crops and both districts are characterized by high borrowings and high debt. In Cuddapah, all the urban moneylenders, and in Kurnool about 82 per cent of the urban moneylenders, were traders; in both the districts, about a quarter of the rural moneylenders were traders. In Cuddapah, nearly 60 per cent of the sale transactions were reported to be specifically with traders; in all transactions for which the relevant information was given, the produce was sold in the village itself. In 25 per cent of the cases the settlement of price took place before delivery of the produce. In Kurnool, 71 per cent of the sale transactions were reported to be with traders and in 59 per cent of the cases the produce was delivered in the village; in roughly 12 per cent of the cases the price was settled before delivery of produce.

Malda and Midnapore are two of the districts where the private moneylender is the important credit agency; in Malda, 61 per cent and in Midnapore, 66 per cent of the total credit was supplied by this agency and most of the balance came from relatives. In Midnapore, 54 per cent of the moneylenders were reported to be traders also. The major part of the borrowings from the private moneylenders was at rates of interest exceeding 18 per cent in both the districts. The credit supplied by the Government and the co-operatives accounted for only about 2 per cent of the total credit in Malda and Midnapore. The increase in debt per cultivating family during the year, considering only cash borrowings and repayments, was of the order of 94 per cent in Malda and 203 per cent in Midnapore. In Malda, for which detailed information is available, most of the sale transactions were with traders, and the delivery to the trader was mostly in the village itself.

'Hats', 'shandies' and 'mandis'

13. A very brief account may now be given of markets and marketing practices in India. There are three types of markets, namely (1) *hats* and *shandies*, (2) wholesale markets or *mandis* and (3) retail markets. Generally, it is with the first type of market that the primary producer comes into contact. Sometimes, and for some crops, he also deals with markets of the second type. It is, therefore, of these two varieties that it would be relevant to give a few particulars.

Hats and *shandies* are markets periodically held, the former usually once or twice a week, and the latter either at longer intervals or on special occasions. What is sold in these markets is agricultural produce or livestock or both. It is estimated that there are over 22,000 *hats* and *shandies* in the country. The *hats* in Bombay, Madras and Hyderabad deal in both agricultural produce and livestock, while the majority of the *hats* in West Bengal, Uttar Pradesh and Bihar deal mainly in agricultural produce. They are usually held on some piece of open land readily accessible to one or more villages. The area served by a *hat* varies considerably; in some cases it is only one village, and in other instances it may have a radius of 60 to 70 miles. Dates for holding different *hats* in the same region are usually so fixed as not to clash with one another. Attendance varies with season. The quantity of produce sold may be anything up to 4 lakh maunds. In addition to foodgrains, oilseeds and pulses, there are also sold *gur*, tobacco and vegetables in these markets. Their organization and control is usually vested in the

taluka and village officials. In some States, the *hats* are under private control. The market charges, e.g., for each stall or place occupied, and the method of levy vary considerably between different areas and different States. A feature common to most States is that there is little or no control over malpractices.

The total number of *mandis* in India is estimated at over 1,700, the largest number being found in Uttar Pradesh. They may be owned either by private persons or by local bodies. Thus, in Madras, most of the *mandis* are owned by district boards, whereas in Assam, West Bengal and Bihar they are mostly private; in Madhya Pradesh the *mandis* at district headquarters are owned by municipalities. The area served by a *mandi* depends on various factors including the state of communications, the nature of transport available, the variety of commodities handled, and the location with respect to other markets. There are several types of functionaries in a *mandi* such as the *adatyas* or commission agents, *dalals* or commodity brokers, general agents and agents for specific purposes. In regulated markets, there is also the market *daroga* or secretary or superintendent. The assembling and distribution of agricultural produce is generally financed by *adatyas*, shroffs, banks, grain trade associations and exporters. *Adatyas* are of two kinds, namely, the *kutcha adatya* and the *pucca adatya*. The former is concerned with the assembling of produce, while the latter generally arranges for its sale and distribution. The *kutcha adatya* advances loans to village traders or to producers on condition that the produce is sold to him. The *pucca adatya* acts on behalf of the outstation buyers. *Adatyas* generally advance up to 75 per cent of the value of foodgrains pledged with them. Sale by auction or by open agreement does not obtain in most *mandis*, the exceptions being the regulated markets controlled by the State.

Market malpractices

14. In wholesale markets, including sometimes those which fall in the category of regulated markets, many malpractices obtain. The *Report of the National Planning Committee on Rural Marketing and Finance* (1947) lists the following: (*a*) manipulation of weights and scales against the seller, (*b*) arbitrary deductions for religious and charitable purposes, (*c*) the practice of taking away large quantities as samples, (*d*) the *hatha* system under which the bargains between the seller's agent and the buyer are carried out secretly under a cloth so that the seller himself remains ignorant of what actually takes place, (*e*) tendency for the broker whom the producer employs to favour the buyer with whom he is in contact almost every day rather than the seller whom he meets only occasionally, and (*f*) lack of facilities for the cultivator to safeguard his interests in the event of a dispute.

As an illustration of one type of malpractice, the Report quotes the method of sale of cotton in Khandesh, where, after the preliminary negotiations are over, the cotton cart is removed to the ginning factories for the transaction to be completed. It is there, outside the market proper, that the real bargaining takes place between the producer's agent and the buyer. The market authorities themselves, even if so minded, cannot protect the producer's interests in these circumstances.

Regulated markets

15. A certain amount of supervision has long been exercised by local authorities over markets in their jurisdiction. More systematic regulation by the State is relatively recent. Not more than eight States appear to have passed legislation for the regulation of markets. According to

available information, which is not up to date, the number of regulated markets in these States is as follows:

	Number of regulated markets
Bombay	81
Hyderabad	69
Madras	26
Madhya Pradesh	35
Mysore	7
Madhya Bharat	46
PEPSU	39
Punjab	62
Total	365

The object of the establishment of regulated markets is mainly to counteract evils such as unauthorized market charges and incorrect weights and measures. Thus, in the Regulated Markets Act, provision is made for specifying the rates at which market charges may be levied, regularizing market practices, licensing and supervision of weighment, periodical inspection and verification of scales and weights, ensuring correct weighment and fair settlement of disputes regarding quality, weighment, etc., ensuring facilities for prompt payment of the value of the produce to the cultivator, dissemination of reliable and up-to-date market intelligence, enforcement of standards of quality and terms of contract, maintenance of reliable statistics relating to arrival of stocks, facilities such as parking space for carts, storage accommodation for perishable goods and, finally, for the regulated markets to serve as centres of propaganda for agricultural improvement. While standards of marketing have improved in most of the relatively few regulated markets which have been established, a number of malpractices still exist even in these, since personnel and enforcement are two great problems, not always sufficiently attended to, much less solved. Sometimes, as indicated in the foregoing paragraph, the malpractices take a fresh lease of unauthorized life just outside the market, for the private interests are strong, the advantages of evading strict regulation are many and the producer is in no position to seek eventual advantage and protection from law at the cost of the immediate disadvantage involved in the loss of powerful customers who are also sources of credit and finance. Moreover, there is the very grave lacuna that no control at all is exercised over village sales in which the primary producer is literally, legally and in practice at the mercy of the village trader. In the *Report of the Enquiry into Regulated Markets in the Bombay State* (1952) prepared by the University School of Economics and Sociology, Bombay, it is stated that fictitious sales and mock auctions take place in the regulated market, after an understanding has already been reached between cultivator and trader outside the market. The Report further observes as follows:

> "One of the most important aspects of market regulation pertains to the methods of sale. Several malpractices have been associated with the methods of sale and the Act rightly emphasizes the need for the regulation of these methods. But in spite of the Act, the state of affairs prevalent needs improvement in this

respect. The *hatha* system in one form or another is still prevalent in a few markets. Even in those markets where the open auctions or open agreement systems have been adopted, there are several compromises with the essentials of the system. Besides these, there are practices like mock auctions as in Talod, *moghum* sales as in Jalgaon and Kapadwanj. Forward sales are prevalent in a large number of markets. In Talod, it was brought to our notice that the transactions take place before the commencement of the season and outside the market yard. When the produce is ready, it is brought to the market yard and in order to conform to the market rules, a mock auction is gone through and the produce ultimately finds its way to the merchant who had bought it much in advance of the auction in the market yard. In Kapadwanj, a practice is prevalent by which farmers hand over their produce brought to the market yard to merchants at 'n' price, the understanding being that the farmer will select his day for the determination of the actual price. Very often, before this is done, the merchant processes the produce and sells it to a third party. In Bijapur, the farmers leave their produce with general commission agents and the price is usually determined in the absence of the farmer, a week or so later. . . .

"One aspect of marketing which has eluded strict regulation is the village sales. According to the present rules, no transaction can take place within the market proper unless the produce is brought to the market yard, but sales outside the market proper and within the market area are permitted. The only check on such sales is that the purchases have to be made through licensed traders, but in the nature of things, the Market Committees are unable to exercise any effective supervision or check over transactions in a wide and scattered area. It has not been possible to ascertain with any accuracy the proportion of village sales to total sales in the area, or the ratio between sales within the market yard and sales outside the market proper but within the market area, but it can be safely said that the proportion of the village sales is quite large. This leaves a big loophole in the attempt to regulate all primary marketing and makes the operation of the Act over large areas ineffective."[1]

Stricter enforcement requires proper personnel and a great deal depends on those selected for appointment as market *darogas*, secretaries or superintendents and on the composition of the committee which controls them. We will revert to this point in Chapter 35.

Co-operation and marketing

16. A few—very few—fairly successful co-operative marketing societies there do exist in India; some of these may be significant pointers to the lines on which future progress is possible; but, as a present contribution towards bringing about a system in which marketing is by the cultivator and for the cultivator, the part which they occupy in the total picture is wholly insignificant. All the co-operative marketing societies of India put together still fail to catch one's attention as anything important, lacking in this respect even that purely numerical impressiveness which, on paper, credit societies manage to marshal between themselves. The few fairly successful ones occur here and there in Bombay Gujarat, Bombay Karnatak

[1] Pp. 10-11 and 25-6.

and Uttar Pradesh. The total number of all types of marketing societies registered is roughly over 10,000, of which those in Uttar Pradesh, Bihar, Madras and Bombay constitute about 96 per cent. There were 21 state co-operative marketing societies, 1,885 marketing unions and more than 8,000 primary societies in 1951-2. There is little by way of effective co-ordination of function between the primary credit and marketing societies. Very often, the credit society, when advancing loans to cultivators, does not stipulate that the produce should be sold through the marketing society, if one exists in the village. The financial position of the marketing societies at the district level is, in the majority of cases, poor. Lack of godowns of their own is one of the disadvantages which curtail their ability to compete with the trader. It follows that little is, or can be, attempted by way of pooling, grading and processing of the members' produce.

Only from 12 out of the 75 selected districts of the Survey, have there been reported any sales to co-operatives. In four of these districts, namely, Deoria (Uttar Pradesh), Broach (Bombay), Shahjahanpur (Uttar Pradesh) and Meerut (Uttar Pradesh), the value of produce sold through co-operatives exceeded 10 per cent of the total sales of the farmers; in Nainital it was about 1.5 per cent; and in the remaining districts it was less than 1 per cent. In Deoria alone was the value of produce sold through co-operatives (mostly sugar-cane unions) in excess of the value of produce sold to traders.

Sugar-cane unions of Uttar Pradesh

17. The sugar-cane unions of Uttar Pradesh numbered 105 in 1950-1 with a membership of 12 lakh growers; they supplied to the factories 14.5 crore maunds of sugar-cane which accounted for 88 per cent of the total cane crushed by factories in the State. Their main objects are to secure correct weighment and fair price for the cane cultivators, to popularize improved methods of cultivation and to regulate supply through the federations in order to avoid glut on the one hand and scarcity on the other. Ordinarily, the unions make a careful survey of the potential supply of cane from members before the crushing season begins. Rosters for the supply of cane are prepared on this basis. Members are given requisition slips a few days in advance of the date of supply and, at the weighbridge of the factory, the union employees scrutinize the weighment and maintain records of sugar-cane supplied. Similar supervision is exercised at the time of payment.

We may note here that the success of the sugar-cane unions in Uttar Pradesh has taken place within, and been made possible by, a legislative framework of compulsion within which private purchase and co-operative sale have been brought together by a positive policy of the State. Under the relevant legislation the State can notify a particular cane-producing area as reserved for or assigned to a particular factory with a view to developing the cane and organizing the supply within the geographical limits specified. Necessary provisions exist in the legislation for regulating the distribution, sale and purchase of cane from the areas reserved for or assigned to a particular factory or purchase from any other reserved or assigned area. Sales are through co-operative societies; and the State Government can prescribe the manner in which non-members are to sell through cane-growers' co-operative societies. The State Government can also make rules in regard to the appointment and licensing of purchasing agents, rates of commission

payable to the societies, modes of weighment and procedure for settlement in the event of dispute.

18. Voluntary co-operative effort has achieved significant success in some of the cotton sale societies of Bombay. There are 94 co-operative sale societies in the State which are engaged in the marketing of cotton; of these, the societies in Surat, Broach and Dharwar are among the more successful ones. In Gujarat, the societies themselves own 14 ginning and pressing factories; they pool the cotton of their members, gin and press it and sell it on behalf of all the members. In Karnatak, the cotton is sold in individual lots. The societies in Gujarat, of which the one at Surat is the best known, are estimated (as already mentioned) to have ginned over 6 lakh Bengal maunds of cotton in the year 1951-2.

Cotton sale societies of Bombay

19. The majority of sale societies in Bihar are engaged in sugar-cane marketing. They obtain contracts for the supply of cane from sugar factories. As at the end of 1951-2 they numbered 6,420 with a membership of over 2.24 lakhs.

Sugar-cane sale societies in Bihar

20. In Madras, the most important feature in the working of marketing societies is the 'controlled credit scheme' which operates in certain areas of the State. Under this scheme, loans are disbursed to the cultivators as and when required, in instalments, and the repayment of the loans is linked with the sale of produce. The borrower is asked to execute an agreement to market his crop either through the local primary credit society or through the sale society to which the former is affiliated. Loans due to the credit society are deducted from the sale proceeds of the cultivator's crop by the sale society and only the balance is paid to him. At every stage, from that of application for the loan up to the final sale of produce, a close watch is expected to be kept by the society's *panchayatdars* in regard to such matters as the utilization of the funds advanced and the disposal of the produce.

Controlled Credit Scheme

From the available information, it appears that the scheme has not been working satisfactorily even in the Salem District where it has been in operation for about 16 years. Of a total amount of about Rs 55 lakhs advanced by the central bank of the district to agricultural credit societies during 1951-2, only about Rs 4 lakhs was stated to have been lent under this scheme; this is particularly surprising when one takes into account the fact that a rebate of 1 per cent is given by the central bank on all loans under the scheme repaid through the sale of produce through the marketing society and the further fact that the 2 marketing societies in the area are relatively flourishing institutions. It is also observed that only a small proportion of the amount lent under the scheme is repaid through the sale of produce to marketing societies; the bulk of it is paid direct by members to the primary credit societies. The co-operative agency has thus been unsuccessful in ensuring the loyalty of members, in competition with *mandis;* this is mainly the result of the failure of co-operatives to provide adequate marketing and other facilities such as processing and storage, the cultivator thus being left with no alternative but to turn to the private trader as an effective link with the organized markets.

21. Other co-operative societies which are of importance in agricultural marketing are the fruit and vegetable growers' co-operatives which exist in a few States such as Bihar, Madras and Bombay. We have referred to some of these in the previous chapter, but mainly from the point of view of production. In Bombay, there are 45 fruit and vegetable sale societies which concentrate mainly on marketing the produce of their members who number 11,401 individuals and 15 societies. In Delhi, 11 vegetable-growers' societies help their members to market their produce; during 1951-2 these societies sold 28,273 maunds of vegetables and 14,866 maunds of fodder produced by the members. Mention may also be made of the Kailash Multi-purpose Association in the Mahasu District of Himachal Pradesh, which has 17 growers' societies affiliated to it. This district is famous for its potatoes, especially seed potatoes, which are exported to several States in which there is potato cultivation. The association has 36 depots spread over the entire potato-growing area at which potatoes are bought from the growers. In some instances, the purchase is made at a standard price, with provision for rebate to the grower if the association gets a better price eventually; alternatively, the association makes outright purchase so that the grower is unaffected by the prices at which the potatoes are finally sold. During 1949-50 it sold 1.3 lakh maunds of potatoes, of a value of Rs 19.75 lakhs, and earned for itself a commission of Rs 49,693, after paying a rebate to the growers in respect of the first type of transactions referred to above. The association had, from 1947 to 1949, a virtual monopoly of the export of potatoes, which, however, was withdrawn in 1950. The association was also the wholesale dealer for distribution of rationed articles in the district and, for this purpose, maintained 6 distribution depots with 100 village co-operative societies operating as its agents. In Madhya Pradesh, there is only one orange growers' association (located at Nagpur); there is scope for several more. In Madras, there were 15 fruit and vegetable growers' co-operatives as at the end of June 1952 of which the societies at Kodur and Palacole and the Chennur Betel-leaf Growers' Co-operative Society do a considerable amount of marketing. The Coorg Orange Growers' Society is an example of a society which promotes both production and marketing; the society arranges for the grading of the produce and for its sale at depots which it has opened at important towns such as Mysore, Bangalore, Coimbatore and Tellichery. In Mysore, fruit marketing and canning societies help in the sale of figs, pomegranates, etc.; the Mysore Fruit Canning Co-operative Society at Bangalore, the Ganjam Fig Marketing Co-operative Society (Seringapatam) and the Madhugiri Pomegranate Fruit Marketing Co-operative Society may be mentioned in this context.

Fruit and vegetable growers' co-operatives

CHAPTER 8

THE BACKGROUND OF ECONOMIC ACTIVITY (III): ANIMAL HUSBANDRY, COTTAGE INDUSTRIES, ETC.

I. THE PLACE OCCUPIED BY ANIMAL HUSBANDRY, COTTAGE INDUSTRIES, ETC.

Rural occupations other than cultivation

IN regard to 165 lakhs of non-agriculturists (other than non-agricultural *rentiers*) in the rural area, the following particulars may be recalled from a Census table which has already been seen in a previous chapter.

		(Lakhs)
1.	'Primary' industries not elsewhere classified ..	21
2.	Mining and quarrying	5
3.	Processing and manufacture—foodstuffs, textiles, leather and products thereof	28
4.	Processing and manufacture—metals, chemicals and products thereof	5
5.	Processing and manufacture—items not classified elsewhere.. ..	15
6.	Construction and utilities	8
7.	Commerce	24
8.	Transport, storage and communications	6
9.	Health, education and public administration	12
10.	Services not classified elsewhere	41
	Total	165

(Source : Summary Table V—Employers, employees and independent workers by divisions and sub-divisions—*Census of India, Paper No. 3*, 1953.)

Many whose main occupation is agriculture are of course also engaged in subsidiary occupations such as livestock-breeding, dairying, poultry-rearing, bee-keeping, etc.; of these, the number is not readily ascertainable. But where animal husbandry is itself the main occupation, i.e., the major source of income, information as to the number of self-supporting persons is available from the Census. Of the 21 lakhs classified under 'other primary industries', 5,54,000 persons are stated to be engaged in stock-raising, 23,000 in rearing of small animals and insects and 3,24,000 in fishery. Thus, 9.01 lakh persons in the rural areas are known to have reported animal husbandry as their principal means of livelihood.

Adding up the items numbered 3, 4 and 5 of the same Census table, we arrive at 48 lakhs as the number of self-supporting persons, of whom a large proportion is probably

engaged in cottage industries. Supplementing the table with a little more detail, we find that 28 lakhs are engaged in the processing of agricultural commodities, weaving, making leather goods, etc. Five lakhs are engaged in manufacture of metal products, making transport equipment such as bullock carts, working as blacksmiths, making medical preparations, etc. The remaining 15 lakhs are engaged in pottery-making, brick-making, wood-carving and other handicrafts.

Of the non-agricultural self-supporting population of 170 lakhs in rural areas, those principally engaged in cottage industries form 28 per cent or somewhat less; and of the whole of the self-supporting rural population they constitute 6 per cent or somewhat less. These figures are of course exclusive of those who turn to cottage industries for supplementing their principal means of livelihood. Their number must be very large indeed, though we lack precise information. The National Income Committee has estimated the total number of persons engaged in small enterprises in urban and rural areas at 115 lakhs.

Estimates of gross value

2. We are able to form some idea of the relative importance of the main items included under animal husbandry and cottage industries from the estimates of gross value compiled by the National Income Committee for the year 1950-1. Such estimates are not available separately for the urban and rural sectors. The available information is reproduced below.

	(Rs crores)
1. Milk and milk products	618
2. Eggs and poultry	19
Total	637
3. Forest produce	73
4. Fisheries	28[1]
Total	101
5. Small enterprises	
(i) Textiles including tailoring	179
(ii) Leather	60
(iii) Wool, glass, ceramics, building and construction	299
(iv) Metal manufacturing and engineering	88
(v) Chemicals	5
(vi) Food, drink and tobacco	81
(vii) Other industries	47
(viii) Allowances for other factors	152
Total	911

[1] Excludes increase in value on account of salting and drying, and value of fish caught by non-professionals, as also value of output of gatherers of chunks, pearls, seaweeds, etc.

(Source: *Final Report of the National Income Committee*, 1954.)

II. ANIMAL HUSBANDRY

Livestock and milk

3. Statistics relating to animal husbandry are neither complete nor very accurate. In most cases, the figures available are really in the nature of tentative estimates made by State marketing organizations or by individuals. The following data are taken from a number of sources and, apart from obvious exceptions as where the source is a regular census, are generally subject to the above qualification.

There are roughly 155 million cattle and 43 million buffaloes in the country, according to the quinquennial livestock census held in 1951. Of the 198 million cattle, 67 million are estimated to be milch cattle. Roughly 95 per cent of the milch cattle are in the rural areas and the production of milk in a village of average size is about 2.5 maunds per day. The total production of milk in the country is estimated at 21.4 million tons, of which about 14.5 million tons are available for sale and the remaining 6.9 million tons are either fed to calves or retained for domestic consumption. According to the Cattle Preservation and Development Committee (1948), cattle which are either unserviceable or unproductive constitute about 10 per cent of the total cattle population of the country. The average yield of milk of the Indian cow is notoriously low; it is only 413 lb. per annum. The corresponding figure for the Indian buffalo is 1,101 lb. The average *per capita* consumption of milk is estimated at 5.5 oz. per day as against a minimum nutritional requirement of 10 oz. The minimum is exceeded only in Punjab and Rajasthan.

Poultry and eggs

4. Poultry farming is an important subsidiary occupation of the poorer classes in the rural areas. The number of poultry in the country is estimated at 73 million. The ordinary village hen is of inferior breed and lays, on an average, 50 undersized eggs each year.

Importance of dairy and poultry products

5. The importance of dairy and poultry products can be gauged from the fact that their gross value in 1950-1 has been estimated at Rs 637 crores by the National Income Committee. As much as Rs 618 crores out of the Rs 637 crores is accounted for by milk and milk products. The receipts from milk and milk products, as recorded in the Survey, constitute roughly 6 per cent of the total cash receipts of the cultivator.

Animal husbandry and the Plan

6. In the Plan, a total amount of Rs 22.3 crores has been provided for animal husbandry, including dairying and milk supply; Rs 14.5 crores, or more than half the provision, is for items connected with livestock, such as improvement by means of selective breeding, establishment of *gosadans* to maintain unproductive cattle, and control of cattle diseases; while the balance of Rs 7.8 crores is allotted for dairy and milk supply schemes, including the setting up of milk boards in each urban area, organization of co-operative dairy farms, milk supply societies and unions and arrangements for the sampling and testing of milk in order to prevent adulteration.

7. The Planning Commission have estimated that about 60 to 70 per cent of the fluid milk requirements of the urban areas are met from within municipal limits, while the remainder comes from nearby villages. With the exception of some well-organized dairy farms, production of milk in villages is on a small scale and unorganized. There are also very few organized agencies which arrange for the transportation of milk from the villages to the towns. In the towns, the retail trader buys the milk and sells it to the consumer. In most places, there are no arrangements to enforce standardization in the quality of milk. Adulteration, common all the year round, increases with the heat, since the milk supply diminishes in the hot months.

Milk and milk products

There are some areas of concentrated milk production in Bombay, Uttar Pradesh, Bihar, Madhya Pradesh and Saurashtra where large quantities of milk become surplus during the flush season. The surplus milk is generally used in the manufacture of *ghee*, *khoa* and *dahi*. According to the *Report on the Marketing of Ghee and Other Milk Products* (1945), the average annual *per capita* consumption of *ghee* is 1.4 seers. Separate averages for urban and rural areas are 4.8 seers and 0.9 seer respectively. The total annual production of *ghee* is of the order of 140 lakh maunds. About 70 per cent of this is put on the market for sale. As in the case of milk, variations in quality are large and adulteration frequent.

The production and distribution of milk and milk products has remained largely a small-scale business. But there is considerable waste of effort, and both transport and marketing are costly. A signal exception to this general lack of organization is the Bombay Government's Aarey Milk Colony Scheme, of which a few particulars will be presently given in connexion with co-operatives, since, though not itself co-operative, the scheme is vitally linked, in one part of its activities, to a whole chain of co-operatives, urban and rural. Mention must also be made of a number of well-organized dairy farms belonging to the Military and Civil Departments of the Government.

8. Co-operative milk supply has made some progress during the last decade, especially in Madras, West Bengal, Uttar Pradesh and Bombay. In Madras, there were 41 milk supply unions and 722 milk supply societies at the end of 1951-2. The unions pool the milk from the constituent feeder societies, transport it to town in their vans and arrange for distribution to urban consumers through sale depots run by the unions. Milk is supplied on contract to institutions such as jails, hospitals, etc. The total membership of the milk supply societies in Madras was 69,203 and the value of milk sold was Rs 64.89 lakhs during 1951-2. The societies obtain loans from Government and in turn advance funds to their members for purchase of milch cattle. In West Bengal, there are 1 milk union and 158 milk societies; the latter collect the milk at different centres and transport it to the union which arranges for its distribution. In Uttar Pradesh, there were 6 milk unions and 216 milk supply societies; the latter had a membership of 5,804 at the end of 1951-2. During the year 1951-2 the unions sold milk valued at Rs 32.61 lakhs. These milk supply unions are at Lucknow, Allahabad, Banaras, Kanpur, Meerut and Haldwani. In Bombay, at the end of 1952-3, there were 7 milk supply unions and 116 dairy societies, of which some were producer societies and others producer-cum-consumer societies. Of the several milk supply schemes in India, the Government scheme for

Co-operative milk supply

the supply of milk to Bombay City is easily the most ambitious and the most important. This includes a well-organized co-operative dairy farm at Anand in Kaira District and a well-equipped milk colony at Aarey, within a few miles of Bombay City. At Anand, there are 60 milk supply societies affiliated to the Kaira District Co-operative Milk Producers' Union. The union collects the milk from the societies, arranges for its cold storage and pasteurization and transports it to the Aarey Milk Colony in insulated vans. The Aarey Colony is also fed by 19 dairy co-operative societies in the Bombay area. In a modern and well-equipped unit in the colony, the milk from the colony's own rented-out stables, from the local co-operative societies and from Anand is pasteurized and bottled for distribution at Government sale depots in the city. The total milk purchased locally by the Aarey Milk Colony is roughly 2,000 maunds per day and another 1,000 maunds are supplied from Anand. Part of this is used for preparing toned milk which is also supplied at the Government milk depots in the city at lower rates than the ordinary milk. The total milk supplied daily to the city by the Aarey Milk Colony thus comes to about 3,000 maunds which is nearly half the city's milk supply. The total number of cattle maintained at the Colony is about 15,000.

Co-operative marketing of ghee

9. Co-operative marketing of *ghee* has made some progress only in Uttar Pradesh where there were 11 unions and 585 societies at the end of 1951-2. The total value of the *ghee* sold by these societies amounted during that year to Rs 7.07 lakhs. The unions purchase the *ghee* from the societies at a central place on specified days of the month, after testing the *ghee* for quality. The *ghee* is then purified, weighed and filled in clean tins for sale at the union depots. A few *ghee* societies are reported from Madhya Pradesh, Hyderabad and Rajasthan.

Poultry farming: State and co-operative efforts

10. In Bombay, the State Government has taken some steps to increase the production of eggs by distribution of pedigree fowl to village poultry farms and by advancing loans to persons previously trained for the purpose of starting their own poultry farms. In Sholapur District, the marketing of eggs is done by the State organization. Co-operative poultry farming has had some measure of success in Madras and Travancore-Cochin. In Madras, 40 egg production and sale societies are reported to have sold 1.94 lakh eggs valued at Rs 24,660 during 1951-2. In Travancore-Cochin, 5 co-operative societies are reported to have taken to poultry farming. The poultry farm at Martandam in Travancore-Cochin which is run successfully on a co-operative basis and the Katpadi Egg Marketing Society of the Madras State deserve special mention.

Wool

11. Another important product of animal husbandry is wool. The total number of sheep in the country is estimated at 3.9 crores and the total wool production is roughly 5.5 crore lb. of which 3.2 crore lb. are exported.

Fish

12. The country's fish production is estimated at about 1 million tons, of which 70 per cent is salt-water fish and the remaining 30 per cent fresh-water fish. Madras accounts for nearly 48 per cent of the sea-water fish caught annually and Travancore-Cochin for 27 per cent. The export of salted and dried fish is valued at Rs 298 lakhs per year.

Fisheries and the Plan

13. Recommendations in the Five Year Plan in respect of inland fisheries relate to development of tanks, proper collection and distribution of fish seed, legislation for acquisition of private fishery rights in certain circumstances and finally research. The proposals in regard to marine fisheries are concerned with mechanization of country craft, introduction of mechanically powered boats and trawlers, charting for deep-sea fishing, provision of training facilities, supply of fishermen's requisites and provision of efficient arrangements for marketing, including refrigeration and transport. The total provision for these purposes is Rs 4.64 crores. The target for increase in production is half a million tons.

Marketing of fish

14. Fresh-water fish is mostly marketed direct to consumers. Of the salt-water fish, only 20 per cent finds ready sale and the remaining 80 per cent is either dried and salted or converted into fish meal and manure. There is a considerable gap between the price the consumer pays and what the producer gets for fish. Transport and marketing are largely in the hands of middlemen. Facilities for cold storage are generally lacking, one of the few exceptions being the ice storage plants recently installed in Bombay. Several of the fishing centres are badly served in regard to communications with the hinterland, and there is lack of quick mechanized transport to consuming centres.

Co-operation and fisheries

15. In Bombay, at the end of 1951-2, there were 71 fishermen's co-operative societies, distributed over 14 districts, with a total membership of 18,148. The societies supply fishing gear, market the catch and distribute consumer goods to fishermen. Some societies own fish-curing yards and allot them to members by auction. Some of the societies own trucks for the transport of fish and motor launches for deep-sea fishing. The societies are affiliated to a central organization called the 'Bambai Prantiya Macchimar Sahakari Sanstha'.

In Madras, there were 332 fishermen's co-operative societies with a total membership of 58,113 at the end of June 1952. West Bengal reported 275 societies with 16,825 members. In Travancore-Cochin, there were 130 societies. Those in Orissa were 53, Assam 38, and Bihar 22. For all the States together there were 951 societies with a total membership exceeding 1 lakh. Government aid for these societies, by way of subsidy etc., amounted to Rs 2.44 lakhs for the year ended June 1952.

III. COTTAGE INDUSTRIES

Rural, cottage and small-scale industries

16. Among the large variety of rural industries, cottage and small-scale, are spinning and handloom-weaving, *ghani* or oil extraction, soap-making, husking of paddy, manufacture of *gur* and *khandsari* from sugar-cane, preparation of palm *gur*, tanning of leather and manufacture of leather goods, paper-making, manufacture of woollen blankets, bee-keeping, sericulture, manufacture of matches and a whole series of handicrafts such as pottery-making, filigree-work, wood-work, etc. These industries are not of course confined to the rural areas; and most of the statistical information concerning them makes no distinction between urban and rural. Nor is it easy to say where a particular unit of production ceases to be a 'cottage industry' and becomes 'small-scale'. Various working definitions

have been adopted or suggested; refraining from any attempt to add to them, we proceed to give some particulars regarding a few of these cottage and small-scale industries. One or two of them, directly connected with agriculture, have already received notice in this chapter.

Handloom-weaving

17. In practically every State in India, handloom-weaving is the major cottage industry. It is estimated that nearly 100 lakh persons are supported by it either as earners or as dependents on earners. Of these, about 30 lakhs are full-time workers, 30 lakhs are part-time workers, and the remaining 40 lakhs are partly or wholly dependent on those who earn their livelihood from the industry. For the year 1951 the total number of handlooms was reported to be about 30 lakhs; of these, 8.4 lakhs were in Madras, 4.8 lakhs in Assam, 2.5 lakhs in Uttar Pradesh, about 2 lakhs in Bihar, 1.6 lakhs in Bombay, 1.2 lakhs in Manipur, 1.3 lakhs in Orissa, 1 lakh in Madhya Pradesh and slightly less than 1 lakh in West Bengal. In addition, roughly 23,000 powerlooms are reported to be in use; of these, nearly 15,000 are in Bombay and the rest in Madhya Pradesh, Mysore, West Bengal, Punjab, Madras, etc. For 1950-1 the total production of cloth from handlooms and powerlooms was estimated at over 810 million yards.[1]

Hand-weaving of wool

18. Hand-weaving of wool is of importance in certain areas; in Rajasthan, for example, which is the biggest wool producing area in the country, the spinning and weaving of wool are of especial economic significance. Sometimes its significance is enhanced by the fact that the total economic resources of the region are small, as for example, in Rayalaseema, which is an important sheep-breeding, wool-spinning and wool-weaving area, even though the relatively low quality of the wool makes possible only the production of coarse blankets and carpets. The total number of hand-woven woollen blankets manufactured in the country is estimated at 10 lakhs. Carpets are manufactured on a large scale in Rajasthan, in Mirzapur and Bhadohi in Uttar Pradesh, and in Ellore and Masulipatam in Andhra; those exported from the country were of the value of Rs 5 crores during the year 1951-2.

Sericulture

19. Sericulture is important in Mysore, West Bengal, Madhya Pradesh, Madras and Bihar. In Mysore, about 51,000 agricultural families are reported to be engaged in the rearing of silkworms as a subsidiary occupation; the total area under mulberry is about 80,000 acres. In West Bengal, about 15,000 acres of land are under mulberry cultivation; and 1,43,000 persons are wholly dependent, and 1,73,000 partly dependent, on this industry. In Madras, the total area under mulberry cultivation was 21,435 acres in 1949. The annual production of raw silk is estimated to be 15 lakh lb. in Mysore; 4 lakh lb. (1947-8) in West Bengal; 3.1 lakh lb. in Madhya Pradesh; 3 lakh lb. in Madras; and 1 lakh lb. in Bihar. About 1,30,000 handlooms are reported to be employed on the production of silk cloth and art silk cloth. Powerlooms are also used in several States.

[1] *The First Five Year Plan*, p. 331.

20. The total expenditure envisaged in the Five Year Plan for the development of cottage and small-scale industries is Rs 27 crores, made up of Rs 15 crores from the Central Government and Rs 12 crores from the State Governments. Out of this, an amount of Rs 7.25 crores is earmarked for the development of the following village industries:

Cottage industries and the Plan

	Rs (lakhs)	Additional production expected
Village oil industry	233	3.16 lakh tons oil
Soap-making with *neem* oil	18	3,448 tons soap
Paddy husking	10	....
Palm *gur*	100	81,852 tons palm *gur*
Gur and *khandsari*	100	....
Leather industry	160	....
Woollen industry	48	10 lakh blankets
Paper-making	19	1,400 tons high grade paper
Bee-keeping	16	....
Match industry	21	1.8 million gross
Total ..	725	

(Source: *The First Five Year Plan*, p. 324.)

21. State Governments and co-operative societies meet a relatively negligible part of the total credit requirements of persons engaged in cottage and small-scale industries. The bulk of the finance comes from private agencies. These are broadly of three types, two or more of which quite often intermingle, namely, the moneylender, the merchant and the master-craftsman. The moneylender advances credit for the purchase of raw materials and also for the current subsistence expenses of the village handicraftsman. He charges a high rate of interest; usually he does not have any interest in the products turned out by the handicraftsman. The merchant or dealer in raw materials ordinarily sells the raw material on credit to the handicraftsman; he too charges a high rate of interest and in addition sometimes stipulates that the finished products should be sold through him. The master-craftsman or *karkhanadar* has often an even more complete hold over the medium and small producer than has either moneylender or merchant. He provides the workshop, the raw material and the finance; to deal with him is in reality to work under him; and his clientele of theoretically independent small producers is virtually his labour force of wage-earners.

Finance for small-scale industries

22. The legal provisions of the different State Aid to Industries Acts are usually both comprehensive and admirable. But in point of actual implementation, i.e., budgetary provision and administrative performance, it may be said of the typical Act that it is remarkable for what is not given under it rather than for what is given. The total amount disbursed as

State aid to cottage industries

loans and grants under this Act by all Part A States and 5 Part B States in 1950-1 amounted to about Rs 57 lakhs and Rs 2 lakhs respectively. Among the Part A States, the major share of the disbursements is attributable to Madras, where loans to cottage, small-scale and large units, including industrial co-operatives, amounted to Rs 32.8 lakhs. Loans advanced by the Bombay Government (to large as well as small industries) amounted to Rs 12 lakhs; in Uttar Pradesh, Rs 2.9 lakhs were disbursed as loans and in West Bengal Rs 2.2 lakhs. The Government of Bombay has been following, for some years, a system under which it stands guarantee for the payment of the amount of margin, not exceeding 30 per cent, required by co-operative or other banks from industrial co-operative societies when advancing loans against pledge or hypothecation of raw materials, finished products or other assets. Under this system, approved industrial co-operative societies are able to raise advances equal to the value of goods pledged. No advance should exceed Rs 15,000. There are only 4 industrial co-operative banks in the Bombay State; their record hitherto has been disappointing, as may be seen from the fact that their total owned capital as on 30 June 1953 was only Rs 5.19 lakhs and their outstanding advances amounted to only Rs 4.09 lakhs due from member societies and Rs 5.90 lakhs from individual artisans.

All-India Boards connected with cottage industries

23. The All-India Cottage Industries Board, which was formed by the Central Government in 1948, recommended (i) a comprehensive survey of cottage and small-scale industries conducted on a uniform basis simultaneously in all the States, (ii) setting up of organizations at the Centre and in the States for the development of cottage industries, (iii) organization of cottage industries, as far as possible, on a co-operative basis, (iv) marketing of cottage industries' products in India and abroad, (v) publication of information regarding the developments in cottage industries, (vi) training and research for cottage industry workers, and (vii) provision of State assistance and patronage. Surveys to ascertain the present position of the cottage industries were conducted in Bombay, West Bengal, Travancore-Cochin and Delhi. In Bombay and West Bengal, the survey was in respect of certain specific industries, while in Travancore-Cochin and Delhi the surveys covered all the industries. For nine other States, grants totalling nearly Rs 2 lakhs were given for obtaining necessary statistical material through surveys. The total budgetary provision for grants from the Central Government to the All-India Cottage Industries Board has increased from Rs 75,000 in 1948-9 to nearly Rs 20 lakhs in 1952-3. The major part of these was given as grants to State Governments and other organizations to carry out approved schemes of training, marketing, development of production, etc. In pursuance of a recommendation of the All-India Cottage Industries Board, similar Boards have been established in several of the States. With a view to exploring export possibilities, an *ad hoc* body called the Indian Cottage Industries Exports Committee was set up in 1950. In 1952, the All-India Cottage Industries Board was replaced by three separate boards, namely, (i) the All-India Khadi and Village Industries Board, (ii) the All-India Handloom Board, and (iii) the All-India Handicrafts Board. These Boards are empowered to recommend grants and loans for ensuring adequate supply of raw material etc. Among their functions is the organization of training, research and marketing facilities.

24. The state financial corporations, which are now being established in several States, are designed to meet the relatively long-term financial requirements of medium and small-scale industries. Most of those which have been set up are still too recent to give any useful indication of the effectiveness with which these institutions are likely to meet the needs of small-scale industries in towns and of cottage industries, including those concerned with the processing of agricultural commodities, in rural areas. State financial corporations now exist in Punjab, Saurashtra, Travancore-Cochin, Bombay, Hyderabad, West Bengal and Assam. In Madras, the corresponding functions are discharged by a public limited company in which the State Government is a partner.

State financial corporations

25. It is reported that at the end of June 1952 there were nearly 8,000 industrial co-operative societies with a total membership of 8.8 lakhs. Of these, 5,364 were weavers' societies with a membership of 7.2 lakhs; they are reported to have marketed goods of the value of Rs 17.2 crores during the year 1951-2. The States with the largest number of societies are Madras, West Bengal, Uttar Pradesh and Bombay. The societies in Bombay and Madras have progressed more than those of most other States. The societies in West Bengal, Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, Rajasthan, Hyderabad and Travancore-Cochin are also reported to be 'active'. In the remaining States, the societies are more or less undeveloped. The primary industrial co-operative societies mostly confine their activities to supplying raw materials and appliances to the members, for cash or on credit. Marketing of the product is generally in the charge of the district federations or unions of societies or apex marketing organizations usually called state co-operative marketing societies. Ordinarily, but with important exceptions, there is no stipulation that the members of the primaries should sell their products through the marketing society. In Madras, there were 1,191 weavers' co-operative societies on 30 June 1953 with a total of 2.11 lakh looms. This is estimated to constitute about 25 per cent of the total number of handlooms in the State. The Madras State Handloom Weavers' Society, established in 1935, besides co-ordinating and regulating the work of the primaries, also maintains demonstration centres for spreading knowledge of improved methods of weaving. It has arrangements for dyeing the yarn brought by members. It runs a network of 124 emporia and depots for the sale of the cloth produced. In Bombay, at the end of June 1952, there were 482 weavers' societies with a membership of 65,101. During the year 1951-2 they sold finished products worth Rs 55.4 lakhs.

Weavers' co-operatives

26. Leather-workers' and tanners' societies are mostly found in Madras, Bombay, Saurashtra, West Bengal and Punjab. Well-developed metal-workers' societies exist in Bombay, Madras and Punjab. In Bihar, oilmen's co-operatives are fairly important; there were 64 of them on 30 June 1952 and their sales during the year amounted to Rs 44,000. Mention may be made of the salt-producers' co-operatives in Saurashtra and Orissa. In Bombay, there were altogether 769 industrial societies (other than handloom), with a total membership of about 55,000 at the end of June 1952. Of these, 47 were oilmen's societies, 189 tanners' and leather-workers' societies, 108 forest labourers' societies, 31 coir and rope-makers' societies, 70 smithy and carpenters' societies, 20 metal-workers' societies and

Other industrial co-operative societies

3. Before formulating debt relief policies, several State Governments took steps to provide immediate relief to the agriculturist debtors in the form of a moratorium, by staying the execution of proceedings against them and postponing sales of land. The next stage was the reduction of debts on a voluntary basis. For this purpose, legislation was passed in many States to set up, in the form of debt conciliation boards, a machinery through which debtors could be assisted to get the consent of their creditors to a reduction of the debt and its repayment in convenient instalments. Some of the Acts provided that not more than a certain size of debt could be the subject of conciliation. The consent of creditors who together accounted for a certain minimum percentage of the individual's total debt was necessary before any part of it could be finally treated as conciliated.

Voluntary reduction of debt

4. From the voluntary principle, the transition was to compulsion. Measures for the compulsory reduction or 'adjustment' of the debts of agriculturists usually contained the following features: (i) reduction (by the empowered courts) of principal as well as interest in accordance with scales which were related to the time of contraction of the debt, (ii) fixation of the maximum rates of interest chargeable on outstanding debt and, in some cases, on new loans, (iii) extended applicability of the law of *damdupat* (viz., broadly, that total of interest paid or payable should not exceed principal), (iv) limits on size of 'adjustable' debt, (v) regulation of mortgages, (vi) protection of the agriculturist against certain legal proceedings and (vii) exemption of specified items of property from attachment.

Compulsory reduction of debt

The classes of debtors to whom relief was made available varied from State to State. Thus, the Madras Agriculturists' Relief Act (1938) applied to all agriculturists and all persons having any interest in land. The C.P. and Berar Relief of Indebtedness Act (1939) extended the relief to agriculturists as a class; while the U.P. Encumbered Estates Act (1934) was confined to landlords who paid a local rate of not less than Re 1. The Travancore Debt Relief Act of 1940 was applicable to all debtors, whether agriculturists or not. In Punjab, the Punjab Relief of Indebtedness Act (1934) as amended in 1940, applied to agriculturists whose holdings were less than 50 acres and whose mortgaged debt was less than Rs 5,000.

Many of the Acts distinguished between debts contracted at different specified periods. In relation to these periods, which differed from Act to Act, scales of reduction were laid down which too varied from one State to another. Broadly, the principal of loans outstanding for relatively long periods was reduced to a figure which was two-thirds to three-fourths (sometimes a little less and sometimes a little more) of the original amount. To illustrate: in Madhya Pradesh, the amount, as reduced by adjustment, was 70 per cent of the principal for debt prior to 1926, while it was 80 per cent, and 85 per cent, respectively for that relatable to 1926-9 and 1930-1; in Bombay (as the Act stood in 1951) it was 60 per cent for pre-1931 debt and 70 per cent for subsequent debt incurred up to 31 December 1939.

5. The provisions relating to maximum rates of interest chargeable on debts declared eligible for adjusment under the Acts also differed from State to State. Uttar Pradesh fixed 4½ per cent on secured, and 6 per cent on unsecured, portions of outstanding debt. In Madhya Pradesh, the rate

Maximum rates of interest

was 7 per cent for secured debt, and 10 per cent for unsecured debt. In Madras, for debts incurred before 1 October 1932 all interest outstanding on 1 October 1937 was wiped out and, for subsequent debts, interest up to the commencement of the Act was not to exceed 5 per cent; the maximum rate of interest on all debts scaled down was placed at 6¼ per cent. Later, it was reduced to 5½ per cent. In Bombay, according to the Act as amended, 12 per cent was the rate fixed for pre-1931 debts, 9 per cent for those incurred between 1931 and 1939 and 6 per cent for subsequent debts.

Protection of property

6. There was variation in the scope of protection to person and property of the debtor as well as in the period for which protection was effective. Thus, in West Bengal, only the dwelling house of the debtor was exempted from attachment under any suit for the recovery of his unsecured debts; in Hyderabad, the exemption was granted in respect of all land owned, in the case of protected tenants, and of land with a minimum assessment of Rs 30 (together with certain minimum necessities) in the case of debtors declared insolvent under the Act; Madhya Pradesh exempted crops and other movable property of a perishable nature; and Orissa extended the exemption to all movable property, standing crops and dwelling house. In some States, restrictions were placed on sales through courts, and the latter were empowered to fix a minimum price for lands sold in auction in execution of a decree.

Miscellaneous provisions in the Acts related to such matters as the alteration of security, indemnification of the debtor in the event of the sale of security, extension of period of mortgage and declaration as insolvent of debtors unable to repay their debts within a specified period. An important aspect of the provisions for redemption of mortgages in some Acts was the cognizance taken of the benefits already received by the mortgagee in determining the reduced amount of debt. Provision was also made, in respect of mortgage debt, for extending the period of repayment and for allowing repayment to be made in instalments.

Extent of debt reduction

7. From the available data of debt actually settled by courts, whether on a voluntary or a compulsory basis, it would appear that the extent of reduction so effected varied from about 19 per cent in Travancore to about 76 per cent in Saurashtra. It may be said, broadly, that in most Part A States, debt adjustment involved reductions ranging from 40 per cent to 60 per cent and in Part B States, from 20 per cent to 40 per cent.

Effects of debt relief legislation

8. It is generally believed that together with the debt relief there was a credit shrinkage. The view is one shared by many of those who have sent replies to our Questionnaire. It is supported by several official reviews on the working of these Acts. For instance, the Punjab Civil Justice Report, 1936, commenting on the working of the Relief of Indebtedness Act, stated: " The Act has lowered rural credit and brought about an appreciable decrease in litigation." The *Report of the Economist for Enquiry into Rural Indebtedness* in Madras (1946) says of some of these measures that they led to the contraction of credit or evasion of law or both. According to an official review of the working of debt

conciliation boards in Madhya Pradesh (1937), " Chairmen of debt conciliation boards have reported that conciliation of debts has led to a considerable shrinkage of credit so that agriculturists experience difficulty in securing new loans." It is not surprising that legislation of this type should, for the time being at any rate, result in some contraction of credit, if only because the creditor, chafing under present 'losses', also takes a gloomy view of future risks. A more specific problem in some States was the 'adjusted debtor' himself; for him it was not so much a case of contraction as of elimination of all private credit. The very process of adjustment involved so many restrictions on the alienability of his property that no lending agencies could be expected to be predisposed favourably towards him. Meanwhile, the adjusted debtor would have to raise crops and before that raise money for the crops. So serious a view of his plight was, for instance, taken in Bombay that the Government instituted for him a system of 'crop loans' which in the main were provided by co-operatives on the basis of a part being guaranteed by the Government.

Debt relief is perhaps significant as among the first of those social policies which present the State with a dilemma. First, a policy of this kind cannot be pursued without, at some stage, administering a shock to some entrenched, but in its own way useful, feature of the private economy, in this case the institution of private credit. That economy reacts to the shock by withdrawing or curtailing the feature, thereby leaving a gap in facilities which affects the very class of persons whom Government is endeavouring to help. The situation with which Government is then faced may be summed up by saying that, in this type of policy, there seems no such thing as going one step forward and then remaining stationary. The choice (as in the instance we have cited of Bombay) is usually between going a great deal farther or reversing the direction and going back to the point at which one had started.

II. MONEYLENDING LEGISLATION

Moneylending legislation

9. Preceded by sporadic measures either for the whole of India or for individual States, the bulk of moneylending legislation, like that concerned with debt relief, was passed by most States in the years which followed the country-wide depression of the thirties.

The main provisions of the existing legislation relate to (i) licensing and registration of moneylenders, (ii) maintenance of accounts in prescribed forms, (iii) furnishing of receipts and periodical statements of accounts to debtors, (iv) fixation of maximum rates of interest chargeable, (v) protection of debtors from molestation, intimidation, etc., (vi) exemptions from attachment of items of debtor's property, (vii) regulation of mortgages and (viii) penalties for infringement and machinery for enforcement.

Licensing of moneylenders

10. The details of licensing vary for different States. What is noteworthy, however, is that licensing itself as a requirement is not uniformly imposed by all States. In Bombay, Hyderabad, Madhya Pradesh, Madhya Bharat, Mysore and West Bengal, it is an offence to carry on the business of moneylending without a licence; in Bihar, Orissa, and Punjab, on the other hand, to be an unlicensed moneylender is not to be an illegal one; the effect of not taking a licence is merely to bar access to law for recovery of dues.

Regulation of interest rates

11. The provisions which seek to regulate the moneylender's rate of interest also differ from State to State. Compound interest is banned in Assam, Bihar, Hyderabad and Coorg. The maximum simple rate of interest chargeable on secured loans varies as widely as from 5½ per cent in Madras (under the Agriculturists' Relief Act) to 12 per cent in Madhya Pradesh and Uttar Pradesh; for unsecured loans, the lowest rate is 5½ per cent (again in Madras) and the highest 24 per cent (in Uttar Pradesh). A few States link the permissible maximum with the prevailing Bank Rate. The rule of *damdupat* is embodied in several of the Acts. In most States, the maximum rate merely limits what the moneylender can recover through a court of law; in some it is a punishable offence to charge more than the maximum.

Other provisions

12. Regulation of mortgages, exemption of property from attachment, and protection of debtors from molestation are items which, in some States, figure in the measures of legislation dealing with debt relief; in certain others, the relevant provisions occur in both sets of legislation, moneylending and debt relief. Several Acts contain provisions for the automatic redemption of mortgages in certain circumstances and after the expiry of a specified period.

The most usual form of penalty for infringement of the law is the denial to the transgressing creditor of the right to resort to courts for the recovery of even his legitimate dues. Fine and imprisonment as penalties are confined to contravention of specified provisions. Special machinery for enforcement exists only in Mysore, Bombay and West Bengal.

Operation of moneylending legislation

13. Replies to our Questionnaire confirm, to the extent they can, the general impression that there is large-scale and country-wide evasion of the restrictions imposed on the moneylender. The available data will be set out in some detail in Chapter 14. A few broad particulars may be given here. Borrowings from professional moneylenders at rates of 50 per cent and over have been reported from West Bengal, Tripura, Bihar, Orissa, Uttar Pradesh, Madhya Pradesh and Madhya Bharat; those at rates between 35 and 50 per cent have been reported from all these States as well as from Himachal Pradesh, Madras, Travancore-Cochin, Vindhya Pradesh, Hyderabad and Bombay. Borrowings from agriculturist moneylenders at rates of 50 per cent and over have been reported from Tripura, Uttar Pradesh, Madras, Madhya Bharat, Madhya Pradesh, Hyderabad and Bombay; and information regarding similar borrowings from traders is forthcoming from Uttar Pradesh, Madras and Madhya Pradesh. The modes of evasion reported are as numerous as they are ingenious. Only a few need be mentioned by way of illustration: (i) obtaining a pro-note for a larger amount of principal than that actually lent; (ii) interest computed at illegal rate and deducted in advance from the amount lent; (iii) the making of a separate pro-note (besides the main one) in the name of a servant or relative of the moneylender to cover the extra interest; (iv) forward purchase, together with false evaluation, of the debtor's produce; (v) conditional sale; (vi) unobjectionable sale deed for purposes of the law, and illegal, if informal, understanding as to the real substance of the contract; and (vii) taking over of debtor's land on usufructuary mortgage

on terms which in effect imply the charging of illegal interest or taking on mortgage the milch cattle of the debtor on a similar basis. There is reason to believe that, in addition to all this, much the larger part of moneylending is carried on without licence, even where such licence is obligatory. There is, besides, some evidence of contraction of credit—which to the extent that it may have restricted wasteful forms of expenditure cannot be regarded as an unmixed evil—as also of the increased cost of credit to the agricultural borrower through the moneylender discounting the additional risks involved in his illegal transactions.

III. LAND REFORMS

Recent land reforms

14. The land reforms now in progress in different States are intimately connected with the form and content of the land revenue settlements devised under British rule for different parts of the country. These settlements were either ryotwari or non-ryotwari (zamindari, taluqdari, etc.). The latter, in turn, were either 'permanent' or 'temporary'. The main characteristic of the non-ryotwari areas is of course the existence of one or more 'intermediaries'—frequently, quite a large number of them—between the State as receiver of revenue and the person in immediate occupation of the land as payer of various kinds of dues. The elimination of these intermediaries is one of the main preoccupations of current land reform. Another is the modification of ownership and tenancy laws in favour of the cultivating tenant. Some of the more important provisions of recent legislation are accordingly concerned with the following:

(i) the vesting of the estates of intermediaries, barring certain properties like home-farm lands, homesteads, etc., in the State;

(ii) payment of compensation to intermediaries;

(iii) the placing of limits on future acquisition of lands by different classes of people;

(iv) conferring on specified classes of tenants the right to acquire superior interests in land such as proprietorship or quasi-proprietorship;

(v) restrictions on letting and sub-letting of land;

(vi) restrictions on sale and mortgage of land; and

(vii) fixation of the conditions of tenancy (e.g., prescribing 'fair rents', prohibition of ejectment, etc.).

It is not necessary for our purpose to consider any of these at length. From the point of view of their bearing on credit, however, whether the significance be direct or indirect, some of the items are of special importance. The particulars given below are confined to these.

Superior rights in land

15. The first set of provisions we may consider is that designed to confer on the tenant-cultivator 'superior' rights in the land he cultivates, these rights falling short of ownership in certain cases and amounting to it in others. In Assam, a cultivator who possesses occupancy rights in his land or has held the land continuously for not less than 10 years has conferred on him the status of landholder; others get protection (from eviction etc.) of various degrees and periods

as ' settlement-holders'. In Orissa, all tenants, excluding those who hold land as village servants or as persons rendering various services to the intermediary, are conferred certain limited proprietary interests in the land. In Madhya Pradesh, occupancy tenants in the area of the former Central Provinces, tenants generally in the ' merged ' territories and ' specified tenants ' of Berar are entitled to continue on the land on the same terms as before, but as tenants of the State; the last group can also acquire occupancy rights on payment of certain sums. In Uttar Pradesh, 4 classes of tenure holders are now recognized: (1) *bhumidars*, whose rights are transferable and include the right of using the land for non-agricultural purposes; (2) *sirdars*, mostly the former hereditary and occupancy tenants, who now have a permanent heritable interest in the land but not the right to transfer it by sale; (3) *asamis*, mostly the former non-occupancy tenants and sub-tenants, who (unlike the *sirdar*) cannot partition their holdings; and (4) *adivasis*, former tenants and sub-tenants of certain classes of superior holders since abolished, whose rights are more or less similar to those of *asamis*. In Saurashtra, the rights of *girasdars* in agricultural lands cease only when the occupancy tenants acquire rights in these lands by payment of their share of the compensation, of which part is met by Government. In PEPSU, the relationship between landlord and occupancy tenant is to be terminated and the holding partitioned between the two in the ratio of 3 : 1; besides, the occupancy tenant can purchase the share of the landlord on payment of prescribed compensation. In most of the States, the legislation also fixes the rates of assessment of land revenue for different classes of tenure holders and the compensation payable by them for acquiring superior rights in the land cultivated by them.

Past debts of intermediaries

16. Provision is also made in regard to the manner of settlement of the past debts of intermediaries. A procedure is laid down for determining the amounts of principal and interest as on the date on which the estates vest in the Government, the rate of interest leviable on such amounts and the extent to which claims can be settled out of compensation, etc. Moreover, only such debts become the subject of settlement as are secured by mortgage of the property or by a charge on it. In some cases, old transactions can be reopened, and under certain conditions the dues can be scaled down. In some States, Assam and Orissa for example, only a part of the compensation can be utilized to meet the claims of creditors.

Restrictions on sale and mortgage of land

17. With the object of protecting the cultivator and preventing alienation of land, earlier tenancy legislation sought to restrict both outright sale and transfer by mortgage. Similar provisions are contained in the recent measures of legislation, both those designed to abolish intermediaries and those designed to protect tenants. In Bombay and Hyderabad, the sale of land by a cultivator to a non-cultivator is prohibited; an order of priority is laid down among the permitted categories of buyers of land. Besides, only such sales are allowed as would not reduce the seller's holding below, or raise that of the buyer's holding above, a prescribed limit. Similar restrictions are incorporated in legislation enacted or proposed to be enacted by other States such as Uttar Pradesh, Madhya Bharat and Rajasthan.

Transfers of land by mortgage are sought to be restricted in some States by the stipulation of maximum periods for usufructuary mortgages. Certain types of mortgages

and charges are not enforceable in respect of the newly allotted occupancy holdings. In Madhya Pradesh, an occupancy tenant or an absolute occupancy tenant can sell his interest only to a co-tenant or the nearest heir; in other cases, he can do so only with the written consent of the landlord who has the right of pre-emption. Similar restrictions are also placed on certain classes of tenants in Uttar Pradesh, Madhya Pradesh, Assam, Madhya Bharat and Ajmer. The protected tenants of Bombay and Hyderabad cannot ordinarily transfer their interest in land; an exception is made in favour of the State when *taccavi* is not repaid. Mortgage by superior tenants is allowed in Bihar, West Bengal, Assam, Madhya Bharat, Rajasthan and Hyderabad, but the condition is generally imposed that it should be a usufructuary mortgage of defined maximum duration. In Madhya Bharat, for example, a *pucca* tenant cannot mortgage his interest except by way of a usufructuary mortgage limited to 6 years, provided such mortgage leaves the tenant an unencumbered holding of not less than 15 acres; these restrictions, however, do not apply when the mortgage is to a co-operative society. There are some States which allow transfers of land only in favour of a co-operative society or the State.

Leasing and subletting of land

18. Conditions on which land may be leased out by landholders are also regulated. In Bombay and Hyderabad, for example, a statutory minimum period is prescribed for every lease; the cultivator cannot ordinarily be evicted during this period. Tenants of certain classes in Punjab, Hyderabad, Madras, Mysore, Himachal Pradesh, and Delhi are also similarly protected. In Punjab, an uninterrupted tenancy of 4 years confers on the tenant the right of pre-emption in the land, and one of 12 years, the right of compulsory acquisition of the land. In Uttar Pradesh and Madhya Pradesh, if certain types of land previously belonging to intermediaries and now vesting in the State are given out on lease, the cultivating tenant automatically acquires occupancy rights. In Hyderabad, leases after 3 years from the commencement of the operation of the Tenancy Act of 1950 are prohibited, except in certain special cases. In many States, even if no minimum term for leases is specified, other restrictions are placed on the lessor to prevent the ejection of the lessee. The result of one set of such provisions is that, once the land is leased, the owner's right to resume it even for personal cultivation disappears or is curtailed. For instance, in Bombay, the landholder can resume the leased land only if no tenant is displaced from more than half his holding, provided further that agriculture is the landholder's main source of income. Ceilings are placed on the area which can thus be resumed by the landholders, inclusive of the area already in their possession.

The right of tenant cultivators to sublet their holdings is similarly restricted. Subletting is generally forbidden to certain types of superior tenants in Bombay, Hyderabad, and Punjab and to *pucca* tenants in Madhya Bharat and Uttar Pradesh. In Madhya Pradesh, habitual subletting makes the lessor liable to the forfeiture of his occupancy rights.

General observations

19. Two main points emerge from this account of different types of legislation, debt relief, moneylending, tenure and tenancy:

(i) Accepting the social desirability of the legislation as paramount, the fact nevertheless remains that implicit in all the four types of measures is the curtailment of private

credit, whether the moneylender's or the landlord's. Complementary to the desirability, therefore, is a need that is seldom recognized: the need for large-scale development of institutional credit, co-operative or State-sponsored. Social change of the kind that is being legislated for will not come—and hitherto has not come—without corresponding economic dislocation in the particular sectors of reform as its accompaniment. Even as it is desirable to provide for the change, so also is it necessary to provide against the dislocation.

(2) Between the need to make the cultivator's rights in land inalienable for reasons of social policy and the need to make them alienable so as to facilitate the obtaining of credit, especially long-term credit, a certain degree of conflict is inherent in the developments we have noticed. Without entering into any elaborate examination of how that conflict might be resolved, we may nevertheless point out that here again social desirability is accompanied by complementary needs, one of which in this case is the need for a change in the present emphasis which institutional credit of all types—short-term, medium-term and long-term—lays on ownership. In regard to some of these types, for example, there might have to be a shift of emphasis from ownership to productive capacity—from land to produce from land—as the basis of credit, and from dependence on eventual sale of land to dependence on effective supervision of operations as basis of recovery of credit. This is recorded here purely as a tentative consideration to be borne in mind, along with several others, in relation to the many-sided problem of rural credit which is to be further examined in the following chapters.

CHAPTER 10

BACKGROUND OF OPINION: "SCHOOLS OF THOUGHT" ON CERTAIN ASPECTS OF PROBLEM AND SOLUTION

Increased awareness of the importance of rural credit

It is more than ever realized today that a proper system of rural credit is basic to the development of agriculture and, therefore, to the prosperity of the country as a whole. Along with this recognition, there is growing impatience that no such system is yet in sight. Both sense of urgency and realization of importance have, after Independence, found repeated expression in the country's legislatures. Besides giving an unequivocal lead in this matter, the Parliament of integrated India has also from time to time insisted that the problem be conceived in all-India terms and the solution designed, not as heretofore largely at the level of individual States, but with the active association of the Central Government and the Reserve Bank of India. In the Five Year Plan of the country is recognized not only the all-India basis of both problem and solution, but also the need to achieve the maximum possible co-ordination between the different agencies of rural credit, private, institutional and governmental, in the endeavour to make credit an effective ancillary to the programme of larger agricultural production. Moreover, the clearest indications are set out in the Plan that no lasting fulfilment of the credit requirement will be possible if account is not at the same time taken of a series of allied economic needs arising from other aspects associated with production, such as processing and marketing on the one hand and aids to better, larger and more intensive cultivation on the other.

The many questions about agricultural credit asked in Parliament and elsewhere—answers to some of which will be found attempted in these volumes—may be classified as relatable to the magnitude of the requirement, the performance of existing organizations and the need for new institutions. What, it is asked, is the outstanding debt of the cultivator? How much does he borrow every year and for what purposes? Do the co-operatives meet an appreciable part of his needs? To what extent do the State Governments through their *taccavi*, and the Central Government through its grow-more-food assistance, help to supplement co-operative resources? Is the larger programme of accommodation to co-operative banks launched during the last few years by the Reserve Bank yielding satisfactory results? Will co-operatives, Government, and the Reserve Bank together be able, at the end of 1951-6, to attain the targets of State-cum-co-operative agricultural loans, short, medium and long, laid down in the First Five Year Plan? Are the interest rates charged by the co-operative societies in different States avoidably high? If so, what can be done to reduce them? Meanwhile, what rates is the moneylender charging, and how much of the entire need is met by him rather than by institutional agencies? Do commercial banks make any contribution at all to the sum total of credit supplied to the cultivator? If we cannot look to commercial banks as a whole for any

appreciable help in this matter, what about the Imperial Bank and other commercial banking institutions which happen to be more nearly associated with State policies than the generality of other banks? And, finally, if neither these institutions nor the co-operative banks, Government and the Reserve Bank together, are likely to make any real impression on the situation in the near future, is it not time that some other remedy was thought of such as the establishment of an All-India Agricultural Credit Corporation? These and similar questions are asked, or suggestions made, in the legislatures, in conferences and in the press. Few of the suggestions are new; indeed, this cannot well be otherwise, if we consider the long period over which Governments, committees and individuals have devoted their attention to the subject of rural credit in India. Many of the views and proposals usually put forward are traceable to one or more of the important committees which have had occasion at one time or another during the last 50 years to deal with the problem as a whole or with different aspects of it; and even as successive committees and commissions have not always seen eye to eye on major issues, so are these views and proposals often so contradictory, mutually, as to render rather difficult the attempt to seek from the different 'schools of thought' some guidance for future policy and action.

'School of imported remedies'

2. One varied set of suggestions, not particularly related to any committee, may be described as pertaining to the somewhat heterogeneous 'school of imported remedies'. Examples which may be mentioned are: the exhortation that the Indian Government should organize an extensive 'Farmers' Home Administration' for bringing State-sponsored credit to the doors of the less well-placed agriculturists on the model of what is done in the United States; the proposal that a somewhat different form of 'supervised credit' such as is being experimented with in some of the less developed South American States should be given a determined trial in India; the suggestion, based on the operation of the Canadian Farm Improvement Loans Act, that Government should guarantee a certain percentage of the loans made to agriculture by commercial banks; the recommendation that a country-wide network of pawnshops owned and run by the State—the experience of Indonesia is cited—should supplement co-operatives wherever they exist and be their forerunners wherever they do not; and the periodically recurring advice that India should look for guidance to the *Credit Agricole* of Egypt (an institution, incidentally, which Bihar at one time sought to copy with results that only just fell short of being disastrous).

Other 'schools of thought'

3. Apart from these sporadic suggestions for engrafting on Indian conditions various types of organization which may or may not have been successful in the countries of their origin, the main lines of thought on the problem may be said to be focussed on the different agencies and institutions of rural credit which exist in this country and on ways of improving, reorganizing or supplementing them. The more important of the resulting proposals are concerned with (1) the moneylender, (2) the commercial bank, (3) the co-operative movement and (4) the State, either by itself or in varying degrees of association with co-operative credit. Implicit in the last two items is a whole range of controversy as to the degree of permissible association between the co-operative movement and the State, the orthodoxies of Co-operation providing arguments to one side and the practical necessities of planning to the other. One aspect of the controversy is the validity or

otherwise of a certain amount of compulsion in the co-operative sphere; the point is raised, for instance, whether circumstances could be conceived in which non-members might be legitimately forced to join a co-operative activity or at the least compelled to conform themselves to it. These main topics which engage the attention of different schools of thought are taken up one by one in the following paragraphs, and the exposition of opinions and suggestions is left to be illustrated as far as possible by quotations from the exponents themselves.

Absorption of moneylender in system of rural credit

4. The moneylender's continued dominance, despite all measures to control, suppress or supplant him, has led to the suggestion that any realistic system of rural credit should seek to incorporate him in itself rather than compete with him or wishfully expect to eliminate him. Many ingenious proposals are made to that end. One of them, worked out in some detail, is to be found in the *Report of the Economist*[1] *for Enquiry into Rural Indebtedness* submitted to the Government of Madras in 1946. We quote from the Report:

"I shall now proceed to give a brief outline of my scheme to utilize to the full the funds of moneylenders for the betterment of agriculture and rural economy. It should be made obligatory for all the moneylenders in each village or group of villages to become members of the local co-operative society, the setting up of which is already taken for granted. They should be forbidden by law from lending directly, without the intervention of the local co-operative society, to any agriculturist. They should open accounts with the society and maintain a minimum of deposits. As a transitional measure for a period not exceeding ten years, all the co-operative credit societies must be bifurcated one part of which must consist of its usual old self and the other must consist of moneylenders whose membership is made obligatory. The accounts may be kept separately. A prospective borrower, then, will have two ways of getting a loan; he can simply follow the usual procedure of applying for loan to the society or he can meet any moneylender he likes and negotiate for a loan and then submit an application to the society mentioning the amount he wants, the person who is willing to accommodate him, the rate of interest charged and the other considerations regarding repayment. A copy of this application is immediately posted on the notice board so that other moneylenders, who are members of the society, may know the full details of this proposed transaction. If any one of them comes forward offering easier terms to the borrower, the new offer may be accepted in the place of the old one. This kind of publicity given to a proposed transaction enables the borrower to get the best of terms. (Combinations of moneylenders should be prohibited by law and evasions of the law will be reduced to a great extent if the suggestions given to augment the financial resources of pure co-operative societies and to reduce the opportunities to the moneylenders of more profitable investment of their funds are implemented.) Because the debtor is contacting the moneylender outside the co-operative society, unhindered by any sort of red-tapism, he can fix his terms quickly and the loan will be sanctioned earlier than in the 'pure' branch of the society. This procedure obviates delay in getting loans and the paucity of co-operative finance is made up by inflow of moneylenders' credit. But to direct them

[1] Dr B. V. Narayanaswami Naidu.

through co-operative societies and to irrigate financially agriculture, mere compulsion of moneylenders to become members of village co-operative credit societies will not suffice. Certain inhibitions are necessary to prevent or discourage moneylenders from evasive tactics and alternative lines of investment; promissory notes or other documents of credit which are not transacted through some co-operative society or other should be made invalid in the eyes of law. This involves an amendment of law affecting promissory notes; it may be opposed on the ground that it is a direct assault upon individual freedom to invest or spend one's money as one likes. Critics of this proposal will have to be reminded that the spacious days of *laissez-faire* are gone; for instance, capital issue control has put freedom of investment into a strait jacket. Without a complete prohibition of all direct transactions between moneylenders and agricultural borrowers, it will be impossible to check the activities of the former and the victimization of the latter. Measures like compulsory licensing of moneylenders and regulation of accounts are too feeble to effect the desired change. Hence I recommend that private moneylending except through authorized institutions like the co-operative societies should be absolutely prohibited. The societies must meet the incidental administrative expenses from the common good fund. It is expected that when all the recommendations regarding interest etc., are implemented the moneylenders will have gradually become full members of the co-operative societies which they might have treated as registering houses at the beginning. The need for bifurcation will no longer exist and the two branches, then, may be merged."[1]

Another view which may be cited is that expressed by the Government of the then United Provinces in reply to the questionnaire of the Famine Inquiry Commission (1945). The extract below deals with the somewhat different point that the moneylender and the indigenous banker should be linked with the monetary system of the country through the Reserve Bank:

"By far the most important agency in the matter of supply of rural credit is the village *mahajan*. A new type of rural credit supplier has emerged as a consequence of the Land Alienation Act and other restrictions have been placed upon the village *mahajan* by recent credit control legislation. This new type consists in the zamindar or in the cultivator class of credit supplier. Linked with them is the chain of various grades of middlemen *beoparis* or *adatyas*, who give ready cash either for standing crops or crops otherwise contracted for The worst feature of indigenous moneylending is the exorbitant rate of interest which ranges from 25 per cent to 100 per cent. From an analysis of their circumstances, it is clear that the village moneylenders are an indispensable element in the financial system of the country, though their resources are limited and methods antiquated. The true remedy, therefore, is not to end but to mend them. No statistical data are available regarding their business. The need for such data is urgent, particularly with a view to determine the direction in which their business should be improved. It is, therefore, considered that it would be useful to proceed with the implementation of the United Provinces Moneylenders Bill, 1939. It is high time that the Reserve Bank of India, through its Agricultural Credit Department, became linked with the indigenous banking system

[1] Pp. 68-9.

of the Province. It does not seem desirable that the Bank should insist on differentiation of the banking transactions of these village *sahukars* from their trading transactions. It will not be possible to introduce this bifurcation among rural credit suppliers." (*Report of the Famine Inquiry Commission*, 1945, pp. 466-7.)

Competition with moneylender

5. In contrast to the points of view which appear in the above extracts is the opinion of the Agricultural Finance Sub-Committee which in its Report of 1945 lays the main emphasis on the building up of a system of agricultural credit which will compete with, not absorb, the moneylender:

"Today the field of agricultural finance is almost entirely unregulated and the dominant role therein is that of the private moneylender who operates on a comparatively small scale. The moneylender might in many parts combine this role with that of a trader or that of the landlord. He might in some cases be an entire outsider living in a town, small or large, or might in other cases belong to the social and economic class of the agriculturist producer himself. Whatever that might be, the finance of agriculture rests in the hands of a very large number of private individuals who are ordinarily in a much superior economic position to that of the agriculturist borrower and whose charges and methods of business are such as to impair considerably the agriculturists' incentive and capacity towards efficient production. The main problem, therefore, is to provide an alternative source of finance on reasonable terms to which an agriculturist could have resort if he is so minded. The vast business of the moneylender class cannot be all taken over by any other agency within a short period. But it is possible to affect the working and character of this business immediately. One means of affecting this business is, of course, that of legal regulation, which we discuss at a later stage. An even more effective way of affecting it is, however, the provision of a suitable alternative. There is little doubt that if every agriculturist producer who had need of raising funds could approach an agency other than that of the private moneylender and be sure of obtaining for all reasonable purposes finance on reasonable terms, the charges made by the moneylender and the methods of business adopted by him would immediately change for the better to an appreciable extent. We, therefore, recommend that the main aim of the reconstruction of agricultural finance in the immediate future should be to provide the producers in all areas with such an alternative agency.

"Theoretically, the ideal agency for the purpose would be a complete system of co-operative finance. The definition of our aim, however, involves rapid and planned action all over the country and we cannot rely on the co-operative agency meeting this requirement adequately. There is a general feeling among co-operators today that it would be undesirable to lose the peculiar co-operative character of their institutions by making them creations of an external authority and liable to considerable control from outside. In the absence of externally planned establishment and control it is difficult to guarantee that the agencies will be available in all the places where it is necessary to have them. Therefore, a system that, it is desired, should begin immediately to function as the ubiquitous competitor of the moneylender would have to be brought into existence and worked by the State itself." (*Report of the Agricultural Finance Sub-Committee*, 1945, pp. 31-2.)

Subsidy to commercial banks

6. The view is sometimes held in commercial circles generally and by bankers in particular that the commercial bank should be encouraged by State subsidy to extend much farther than at present into the rural areas both for the purpose of mobilizing rural savings and for supplying to the agriculturist larger credit than he is able to get from the co-operatives. In July 1949 the Central Advisory Council of Industries made the following suggestions in regard to the promotion of rural savings:

"In order to inculcate the habit of saving and investment in the agricultural and the upper wage earning classes, the small savings campaign should be intensified. A suggestion which the Council commends for examination by Government is that the Reserve Bank should select 5 or 6 leading commercial banks, and request each of them to establish about 200 branches in rural areas and lend them free of interest the cash balances to be maintained in such branches. It will be the duty of the banks to cultivate the banking habit in the rural areas and for that purpose the bank in each area should be guaranteed freedom from competition for a period of ten years so long as it discharges its functions successfully." (Quoted by the Rural Banking Enquiry Committee, 1950, in their Report, pp. 2-3.)

In the same connexion may be mentioned a much more ambitious scheme submitted by the Bengal National Chamber of Commerce to the Rural Banking Enquiry Committee:

"(*a*) Rural banks at the rate of one for each taluka, with pay-offices within the sub-division, should be established as joint-stock banks, with a paid-up capital of Rs 1 lakh for the principal office and Rs 10,000 for each pay-office. The scheme should be gradually extended to the whole rural area of the country in five years.

(*b*) Such banks should be sponsored by scheduled banks of five years' standing and working at a profit, on whom it would generally be obligatory to join the scheme, opportunity being given to them to select their area of operation as far as practicable.

(*c*) The 'sponsor bank' should subscribe 50 per cent of the capital of each rural bank, the balance being subscribed by the public, failing which it is to be taken up by the Provincial Government.

(*d*) Government should guarantee the 'sponsor bank' against any capital loss up to 50 per cent for the first seven years, or contribute Rs 6,000 per annum towards the cost of working of each rural bank.

(*e*) The 'sponsor bank' should lend to the rural bank for investment up to three times the amount invested by the 'sponsor bank' in the rural bank's capital, this amount being guaranteed by Government. The Reserve Bank or a State-sponsored bank may make further advances to the rural bank up to the amount advanced by the 'sponsor bank'.

(*f*) The 'sponsor bank' should be paid by the Central Government a commission of one-eighth per cent on the annual average of outstanding deposits of the rural bank up to the fifth year of its incorporation. The Central Government should seek reimbursement from the profits of the rural bank from the sixth year onwards.

(g) The income of rural banks should be subject to income-tax at a privileged rate not exceeding 25 per cent of the rate applicable to other public companies.

(h) Deposit insurance scheme should be introduced for these banks.

(i) The rural banks should be entrusted with the cash work of Government as agents of a State-sponsored bank which would itself be the agent of the Reserve Bank." (*Report of the Rural Banking Enquiry Committee*, 1950, pp. 70-1.)

Both the suggestions which appear in the foregoing extracts were rejected by the Rural Banking Enquiry Committee on the following, among other, grounds:

"(i) Subsidies would have to be given to certain banks selected for different regions on the basis of their soundness or other criteria, and cannot obviously be given to all banks. However careful and impartial the selection may be, it is bound to lead to charges of discrimination and favouritism and may also indirectly reflect on the credit of other banks which have not been selected for this purpose.

(ii) The analogy of protection given to some industries by Government is not applicable to banking, which can no longer be considered an 'infant industry' and does not suffer from serious foreign competition.

(iii) Although such subsidies are demanded for a short initial period, the general tendency is to go on pressing for their continuance on various grounds, and thus perpetuate them.

(iv) In the field of banking, initial losses at the new branches are not unusual and if the banking prospects of the area have been carefully assessed, such losses should prove to be only temporary, and should be made up from profits at other branches in anticipation of future gains.

(v) The present financial position of the Central, Provincial and State Governments in India is not such that they could spend substantial sums to subsidize the banking system. The necessity for a substantial retrenchment and the pressing demands made on Government for several essential activities make it impossible for them to find the funds necessary for such subsidies.

(vi) The subsidizing of branches of commercial banks is opposed by co-operative banks and societies which are already being assisted, directly or indirectly, by Government. The grant of subsidies to co-operative institutions is justified on various grounds; such institutions undertake business which, from the commercial point of view, is regarded as risky, are attempting to provide credit to rural areas at low rates of interest, and their primary object is not profit to shareholders but provision of cheap credit to members. The aims and objects of commercial banks are, however, different, and the offering of subsidies to them for entering into business which would, to some extent, be competitive with that of the co-operative institutions would be objected to by the latter, as being inconsistent with the accepted policy of the State in India." (Pp. 55-6.)

"Apart from the proposal that the Imperial Bank, as the sole agent of the Reserve Bank, should be asked to expand its branches on a planned basis to a certain

number of taluka towns to carry on Government cash work at treasuries and sub-treasuries and to afford remittance and other facilities to banks and the public, we do not approve of any schemes whereby specific plans for the allocation of certain regions or places for selected scheduled banks are to be adopted with the approval and assistance of Government. Activity directly planned, assisted or approved by Government, should, we believe, continue to be confined to public or semi-public institutions, such as the co-operative banks and post office savings banks. The expansion of sound commercial banks should be welcome to the extent it can be stimulated by the general measures we have proposed, but not on any other basis, and we do not approve of direct Government assistance or guarantees to such institutions. We do not also approve of Government cash work at treasuries and sub-treasuries being entrusted to any bank other than the Imperial Bank in the Provinces as will be seen from our discussion of the question in Part III of this Report." (*Report of the Rural Banking Enquiry Committee*, 1950, p. 70.)

Single-purpose *v.* multi-purpose co-operative societies

7. The schools of thought are noticed to be more numerous and the conflicts between them more pronounced as we pass on to Co-operation and consider the views held regarding its credit functions on the one hand and its relationship with the State on the other. Over the last few decades, for example, there have alternated or coexisted two distinct views as to whether co-operative credit societies should be single-purpose or multi-purpose for the proper discharge of their main function as providers of agricultural credit. The Royal Commission on Agriculture in India says in its Abridged Report (1928):

"As a matter of principle, the single-purpose society seems the best line of development. 'One thing at a time' should be the policy." (P. 54.)

The view finds elaboration in the main Report:

"The credit society has proved easy to manage; its principles are readily understood; its requirements are within the capacity of the villagers to provide and it has done much to inculcate the value of self-help and of mutual help. A successful credit society is the best basis on which to organize other types, but it is not easy to educate the people to the advantages of those types. Debt is felt as a burden but there is not the same ready appreciation of the value of joint purchase and sale, of insurance or of the many other schemes with which experiments have been made. Where business activities are involved, business management is required and it is not easy to find the capacity for this from amongst the members of societies. Such talent in this direction as exists usually prefers to find scope in working for private gain and several promising societies have come to grief owing to the secession of an important office-holder who, seeing the possibilities of profit, decides to put his own interests first and to start a rival business. Lack of training in such matters as the combined purchase of agricultural requirements and the sale of produce has limited the choice of members of committees and, where the men most fitted to serve in this capacity in credit and non-credit societies are the same, the question arises whether the same society should serve more than one purpose or whether there should be separate organizations for separate objects. No hard and fast rule or practice in this respect has yet been established in any Province. Where the secondary

object is of minor importance, such as the distribution of seed once or twice a year, or where the work involved is too slight to justify the establishment of a separate society, the credit society has usually undertaken the additional duty. But, where the new object is of such a different character that it appeals to a different membership, separate societies are usually formed. The fact that, under the law, rural credit societies must have unlimited liability is recognized as an impediment to their undertaking business for which limited liability is more suitable, and, where societies with unlimited liability are undertaking other functions, it is usual to keep separate accounts for the latter. We found that, on the whole, the single-purpose idea met with general acceptance, and that, where exceptions occurred, these were based on reasonable grounds. The multiple purpose society is nowhere advocated on grounds of policy; it is usual to describe the objects of a society in the by-laws in such a general way as to permit of secondary functions being performed without a breach of the law, but this is for convenience only and has not led to societies attempting to combine incompatible activities or risking their unlimited liability in transactions for which it is entirely unsuitable." (*Report of the Royal Commission on Agriculture in India*, 1928, pp. 467-8.)

On the contrary, the Reserve Bank of India, in the very first bulletin issued by its Agricultural Credit Department, favoured the multi-purpose idea in the following terms:

"In recent years Co-operation has included in its programme other economic aspects by establishing societies for the consolidation of holdings, purchase and sale societies, compulsory education societies, better living societies, and so on, and considerable progress has been made on these lines in several Provinces like Punjab, Bombay, etc. But even now co-ordination of these activities is lacking. Where separate societies of these kinds exist for different members, no single member gets all the benefits which are required to put him on a surplus economy. To carry out the scheme to its logical conclusion, there must be as many societies in each place as the problems which give rise to the deficit budget, each endeavouring to do one particular service to the peasant to enable him to save expenditure or increase income. The possibility of organizing the co-operative movement in India in this manner is remote. Even if this was practicable it would result in considerable waste of effort and duplication. It is also doubtful if such separate disjointed efforts can achieve a single goal. The Indian peasant himself is the greatest stumbling block in the way of the success of such a scheme. He is ill-educated and conservative, with no incentive to improve his standard of life. Having become enured to a very low economic condition for a long time, it is difficult for him to change his whole outlook on life, his habits and methods of work. What is possible in advanced countries like Denmark, where the whole business of agriculture is organized on economic lines and where the farmer knows his own business, is not, therefore, possible in India. Here it is not easy to create in the farmer an enthusiasm for all kinds of new activities at once. He cannot be induced to join a number of organizations. He is happy when all his needs can be satisfied by the same agency, and is used to the moneylender-trader who supplies all his wants. His whole psychology of life must be changed and if this is to be done it is necessary that he should be taken up as a whole man and that all the aspects of his economic life should be dealt with by the same agency." (Reserve Bank of India, Agricultural Credit Department, Bulletin

No. 1—*Report on the Banking Union at Kodinar, Baroda State, with suggestions about its applicability elsewhere*, 1937, pp. 14-16.)

The idea was further elaborated by the Reserve Bank in its bulletin on co-operative village banks:

" In brief, the village bank must not be merely a source of credit but must help in the business of marketing of crops and purchases of necessities, take an active part in agricultural and industrial development, influence and improve social and religious customs. It should make special efforts to develop corporate life and to be helpful and useful in every direction. Every avenue of waste should be checked and all methods for increasing production should be developed. These ideals must be formulated from the very beginning; they cannot be suddenly imported at a later stage; in fact, once the working of the institution has crystallized into narrow grooves it is difficult to enlarge it. Members must be from the very beginning trained in these ideals which must be steadily pursued. The bank should work to a programme and activities should be taken up one by one. Results should be reviewed from year to year and a fresh programme prepared depending upon the achievements made. The banking union and the departmental staff can render useful help in this matter. The banking union which should be organized on the lines indicated in the first bulletin should be in the closest touch with the village bank and should constantly guide it. A close connexion between the two will enable the village bank to develop at a rapid rate and to undertake the varied activities connected with village life." (Reserve Bank of India, Agricultural Credit Department, Bulletin No. 2—*Co-operative Village Banks*, 1937, pp. 29-30.)

The multi-purpose idea is not only re-emphasized but expanded into the wider concept of ' rehabilitation ' in the following quotation from one of its most notable advocates:

" The multi-purpose ideal associated with the co-operative movement can be described in Sir Horace Plunkett's famous formula: ' Better Farming, Better Business and Better Living'. Since farming in India is a way of life this formula enunciates all the activities that would make comprehensive improvements in rural life.

" Though the co-operative movement is now 47 years old, these ideals have seldom been consistently followed. The organization necessary for its creation is not yet evolved. The predominant idea is to provide credit and here too it is not well regulated. The better farming side which is essential for the achievement of larger production and bringing stability to the business is not attended to. Much less attention is paid to better living possibilities, specially on the social side. The administrative system does not work in a co-operative spirit; in the spheres of agriculture, health, education and small village industries, in particular, the departments show utter lack of co-ordinated policy and co-operative action with the result that the bulk of the rural population is not influenced by their developmental activities.

" So long as these conditions continue, the co-operative movement will be of little avail for the rehabilitation of rural families. Single-purpose societies seldom get the loyalty of members and their full co-operation; they remain with the society so long as they get credit. Multi-purpose societies, on the other hand, will always

get greater loyalty if the contact is continuous and the benefits are more tangible than the mere savings of a few rupees by way of lower interest charges. The ordinary cultivator is accustomed to so many disabilities that a little gain here and there does not appeal to him very much. He expects substantial gains from his association with the co-operative organization.

"We should, therefore, enlarge the scope of the co-operative movement to the basic formula mentioned above and to achieve this objective we should reorientate our working method so that Co-operation becomes a positive and directive force. In other words, it should be a real rehabilitation measure dealing with individual cases and try to set them upon a secure economic footing by increasing the sources of income on the one hand and by eliminating wasteful expenditure on the other." ('Reorganization of the Co-operative Movement' by Shri Manilal B. Nanavati, *Indian Journal of Agricultural Economics*, August 1952, pp. 33-4.)

State and Co-operation

8. Should there be a greater degree of association, financial, administrative, etc., between the co-operative movement and the State in order that the former may be enabled to supply larger credit to a larger number of members? On this important point, as well as on the whole question of State participation in co-operatives, there are sharp differences of opinion. One unambiguous view, associated with what may be described as the 'socio-ethical school of Co-operation', is well expressed in the following sentence taken from *The Co-operative Movement in India* by Dr E. M. Hough (Third Edition, 1953, p. 316):

"Which is more important in the long run, that the co-operative structure should serve as the only credit agency subsidized by the State, or that co-operators should remain true to their principles, accept the impossibility of developing on sound co-operative lines with sufficient rapidity to meet the need of all creditworthy individuals, and leave it to a supplementary agency to try to do what it cannot at the moment without departure from its own *dharma?*"

As allied to this view may be cited the following observation of the Registrar of Co-operatives in Burma in his report for the year ending 30 June 1946:

"Co-operation is a scheme of adult education both in respect of business and in the moral sphere, and, as such, it depends for its success upon two things, viz., efficient teaching and efficient supervision." (Quoted in *The Development of the Co-operative Movement in Asia*, published by the International Labour Office, Geneva, 1949, p. 40.)

It is obvious that the significance of Co-operation as an instrument of planning will be great or little according as the interpretation of co-operative principles tends towards the exclusion or inclusion of State participation. A modification of the more orthodox position is apparent in the following resolution passed by the F.A.O.'s Technical Meeting on Co-operatives in Asia and the Far Eastern Countries held at Lucknow in 1949:

"The role of Government in relation to the co-operative societies should be one of active helpfulness intended to stimulate co-operative enterprise, to guide it and to keep it on sound lines without either attempting to compel or to replace local initiative or self-help. Government should, in addition, promote conditions

under which co-operatives will thrive and develop. . . . While recognizing the essentially voluntary character of the co-operative movement, where there is need for the provision of a common essential economic service, or where the larger interests of the community require it, a resolution passed by a co-operative society should be made binding by law on non-members, provided that a substantial majority of the persons and economic interests affected by such resolution accept it." (*Report of the Technical Meeting on Co-operatives in Asia and the Far East*, 1949, p. 5.)

This particular standpoint may be further illustrated by a quotation from a leading Indian co-operator:

> " Co-operation is both a system and a spirit; it is both a method of working and a moral force; it is a form of organization with legislative sanction and a method of economic working which enables small units to pool their resources together for their common good. At the same time, it has an inspiring motto, ' Each for all and all for each.' This association and working together of human beings for the common end gives it a moral value above and beyond purely economic considerations of individual gain. It is for this reason that it has found acceptance in all countries and has been approved by all parties. In fact, in India every political party has invoked the co-operative method and co-operative organization for the betterment of the standard of living of the masses. This very universality of its appeal makes it necessary to ensure that Co-operation does not align itself with any single political party, whether it is the party in power or not. Co-operative organization deserves assistance and encouragement from the State, but its aim should be to become self-reliant. It should not in any case be absorbed by the State. It should cover a wide section of the field of economic activity and, in its turn, help the State to carry out some of its economic policies, but it should maintain its own power of initiative, its individuality and its independence." (' Co-operation and the State' by Shri R. G. Saraiya. A Paper submitted to the Commonwealth Conference on Agricultural Co-operation, Oxford, 1951, pp. 9-10.)

As regards the element of compulsion in the functioning of co-operatives, there is a similar advance over what may be described as the original orthodox position. This is exemplified in the following observations of the Co-operative Planning Committee (1946):

> " After a careful examination . . . we have come to the conclusion that the voluntary principle governing admission to the membership of a co-operative society should be respected, and that no one should be compelled to join a society. In certain kinds of co-operative activities like consolidation of holdings, crop protection or irrigation, if compulsion is not introduced, it is likely that what is generally admitted as an object essential for economic progress will not be attained. We, therefore, recommend that in the larger interests of the country, a resolution passed by the members of a co-operative society who form two-thirds of the community affected should be made binding by law on non-members also. For this purpose suitable amendments to the Co-operative Societies' Act, on the lines of the chapter relating to the crop protection societies in the Bombay Co-operative Societies' Act, 1925, would be necessary for making provisions for effecting recoveries from non-members and setting up a responsible agency for determining whether a particular scheme is essential. It would also be desirable to provide for referring disputes arising from

the working of the scheme to the Registrar or his nominee as under the Co-operative Societies' Act." (*Report of the Co-operative Planning Committee*, 1946, pp. 7-8.)

Co-operation and the big and large cultivators

9. We have elsewhere alluded to the fact that co-operative credit as it operates is not only inadequate in quantity, but tends to be specially neglectful of the needs of medium and small cultivators. In societies constituted on the basis of unlimited liability, a twofold difficulty presents itself: unless the bigger cultivators are included, the borrowing capacity of the society would not be appreciable and funds and loans would be more meagre than ever; at the same time, the very fact that the funds are meagre and the loans limited renders these societies unattractive to the bigger cultivators. This problem has always been present in the Indian co-operative movement. It arises not only in relation to the short-term credit structure, but also in respect of land mortgage banking. It was against this background that the Central Banking Enquiry Committee recommended as follows:

"In order, however, to satisfy the credit requirements of the large class of agriculturists who are outside the co-operative movement and to provide for substantial loans to big landlords, provincial land mortgage corporations on a joint-stock basis or on the model of the English Land Mortgage Corporation will be necessary." (*The Indian Central Banking Enquiry Committee*, 1931, Vol. I, Part I, *Majority Report*, p. 61.)

The Famine Inquiry Commission, in a somewhat different context but in recognition of the same fact--viz., that the bigger landlords are a class apart from the average cultivator– recommended the formation of associations of large landholders for the purpose of improving their lands:

"It should be recognized that occupancy-right-holders, particularly large landholders have a duty to manage their lands to the best advantage and improve their productivity. The organization of large landholders in agricultural associations with the aim, among others, of improving the standard of cultivation is desirable. The methods by which the formation of such associations might be promoted and their activities stimulated and assisted by local officials, should be studied." (*Report of the Famine Inquiry Commission*, 1945, p. 274.)

Agricultural Credit Corporations for individual States

10. The slow progress of the co-operative form of credit association was among the chief considerations which led the Agricultural Finance Sub-Committee to formulate the proposal that Agricultural Credit Corporations should be established in different States. The details of this important recommendation may be given in the words of the Committee:

"This alternative agency of credit must be an autonomous public corporation established by the State and operating under general official supervision and direction, but whose day-to-day working and normal business transactions are largely conducted on an independent basis.

"It would be better, at least initially, for each Province to have a separate corporation which should possess a centralized organization with a network of local agencies and sub-agencies.

" Its capital will have to be provided chiefly by the Provincial Government at least to the extent of 50 per cent. Other institutional elements of the general credit system may also be invited to subscribe to the share capital. Shares should be placed only with selected credit institutions, chiefly joint-stock banks, co-operative banks and marketing organizations.

" Its affairs should be managed by executive officers and its policies should be framed by a board consisting chiefly of nominees of Government and representatives of other shareholders. Both the executives and the board should be appointed by the Provincial Government for a fixed term of years. Some of the nominees of Government to the board will be officials. In making the other nominations the Government should secure special representation of those engaged in agriculture and in working co-operative organizations.

" It should provide all types of credit.

" It will deal with any individual agricultural producer or group of agricultural producers applying to it for a loan for any purpose for which it is authorized to lend.

" In dealing with both individuals and groups, its methods will be similar to those of any institutional agency, e.g., co-operative banks. . . .

" Each Province or State will have to prepare separately its scheme for the Corporation. For this purpose it will have to take account of the working of the legislation relating to adjustment of debts, the development of the co-operative movement, the operation of the private moneylending agencies, the needs of the specially backward areas, etc. The area and intensity of the development of the activities of the Corporation will also depend on the resources that Government is able or willing to spare for the purpose.

" For the bulk of its ordinary business, the Corporation will not require any considerable subsidization by the State to maintain the rates of interest recommended by us.

" In less developed areas where the cost of administration and collection of loans and the risks connected with them are large, there is need of State subsidy which may be given by such means as giving free use of substantial funds or by directly subsidizing costs of administration, supervision, etc.

" Where the co-operative banking structure is not yet highly developed, the Corporations should take on themselves the financing of co-operatives.

" Where co-operative banking is developed, except in the direction of land mortgage banking, the Corporations could handle mortgage business and no special attempt need be made to develop co-operative land mortgage banking.

" Where co-operative banking is highly developed in both ordinary and land mortgage business, the Corporations would constitute a third system. In both these cases, the three agencies should be effectively co-ordinated and care taken to prevent overlapping of areas, duplication of effort, or redundancy of finance.

"In a Province in which Government feels that the co-operative financial agencies are so strong and have such wide scope that they could undertake all the work which we have indicated as in the sphere of the Agricultural Credit Corporation there would be no objection if a separate Corporation is not set up provided that means are found for making finance through co-operatives available to all creditworthy borrowers." (*Report of the Agricultural Finance Sub-Committee*, 1945, pp. 82-5.)

These suggestions of the Agricultural Finance Sub-Committee found little acceptance with co-operators. In Bombay, however, they led to an important development. The Government of Bombay enquired of the Bombay Co-operative Banks' Association whether central financing agencies in the State would participate in arrangements for the reorganization of the system of agricultural credit on the lines recommended by the Sub-Committee. Thereupon, in a resolution passed in December 1946, the Association expressed the view that "with the same measure and type of assistance which might be required for the proposed Agricultural Credit Corporation and some modification in their constitution, the co-operative banks [in the Bombay State] would be able to meet the requirements of creditworthy agriculturist borrowers." At the same time, the Association requested the State Government to set up a representative committee to recommend the terms and measures of Government assistance and association to be provided to co-operative banks and to suggest amendments and modifications in their constitution to enable them to fulfil the role envisaged. The Government of Bombay accordingly appointed the Agricultural Credit Organization Committee. The general approach of the Committee is expressed in the following terms:

"A preliminary question, which we had to decide before making our recommendations, was whether the existing co-operative agencies would be so reorganized as to discharge the functions envisaged by the Agricultural Finance Sub-Committee with regard to the Agricultural Credit Corporation or whether a new agency was necessary. After a study of the position of the co-operative financing agencies in the Province and examining their ability to absorb new clientele, we have come to the conclusion that the existing co-operative agencies can, with suitable reorganization and State aid, carry out the work of the Agricultural Credit Corporation and in view of this it is not necessary to start an Agricultural Credit Corporation.

"We may mention that we are doubtful whether an Agricultural Credit Corporation can immediately come into being and start functioning on the lines suggested by the Gadgil Committee, with close links with rural areas and with efficient branches. This must take a long period of years, and depend on successful solution of many problems but even if it were possible to set up, within a short period, an organization like the one envisaged by the Agricultural Finance Sub-Committee, we would prefer the strengthening and reorganization of the co-operative movement to the setting up of a parallel structure." (*Report of the Agricultural Credit Organization Committee*, 1947, p. 9.)

We shall later have occasion to describe the main features of the reorganization which did in fact follow in Bombay: a reorganization which, as the above account shows, rested on, and was made possible by, the initiative of the Bombay co-operators and their willingness to undertake a much larger responsibility than had till then been theirs in the sphere of agricultural credit.

11. We may now turn to another variety of Agricultural Credit Corporation—all-India and not for each individual State—which is sometimes advocated and which in the last two or three years has more than once figured in the deliberations of Parliament. The proposal as well as justification for it are explained in the following words by one of its exponents:

All-India Agricultural Credit Corporation

"The co-operative movement, despite its recent growth, touches as yet only the fringe of the problem. It covers only about eight per cent of the working agricultural population of about nine crores. Even if it were to expand until it embraces every village, its resources by the very nature of the Movement are limited and the credit societies will still be in need of external funds if it is to satisfy all the demands of cultivators. The moneylender, who had been the agriculturist's mainstay, has been put out of business by the restrictive laws made by the State Governments and no alternative machinery has been created to take his place. The commercial banks cannot undertake the work of financing agriculture in view of the dispersed population in the villages and the consequent difficulties in collecting the dues. Nor can the Reserve Bank do it. At most it can only further liberalize its policy of providing credit to co-operative banks but it cannot pump into them the funds on a scale consistent with the needs of the agricultural industry; the required finance can, therefore, come only from a national organization dealing solely with this one problem of rural finance and fed with large funds. This organization can distribute loans through similar State Corporations to be started or state co-operative banks already in the field. It should also be charged with the duty of framing agricultural development programmes, giving advice to cultivators and sponsoring specific projects. This will bring about organic relation between money and the work to which it is to be devoted as suggested by the Planning Commission.

"The question, however, is: How is this organization itself to secure the funds which it is to distribute? The Berkeley Conference has made one suggestion—to divert part of the yield from the export and excise duties to the credit organization. Other ways can also be found and I give here some which seem to me eminently suitable and effective. In the first place, the Central and the State Governments can set apart every year a portion of their budgets—may be one per cent or even less—for providing capital to the organization. Secondly, commercial banks should be made to invest part of their loanable funds with the organization. These banks are attracting savings from the country-side and these are devoted mainly to the financing of trade and industry, the agriculturist being left high and dry. There is no reason why part of the resources thus drained should not be ploughed back into agriculture through a Government-sponsored organization and where the investment is made safe. The same reasoning applies to insurance and there is no valid reason why banks and insurance companies should not be made to deposit part of their funds with the national credit organization even as they are required to put them in Government paper and other investment channels. With all these contributions, allocations and investments, the organization should soon be able to have a working capital of about Rs 100 crores." ('Rural Finance: Need for National Credit Corporation'. A note by Shri V. P. Varde.)

The proposal that there should be an Agricultural Credit Corporation is sometimes put forward in the form that India should establish, as has Pakistan, an Agricultural Development Finance Corporation with emphasis not so much on short-term credit, even though that too is to be looked after by the institution, as on long-term credit for land improvement and development. The Development Corporation of Pakistan has an initial authorized share capital of Rs 5 crores of which 51 per cent is the subscription by the Central Government. It has two offices, one in West Pakistan and the other in East Pakistan. It is provided that the Corporation should operate through subsidiary bodies and organizations and advance loans to agricultural concerns for the purpose of promotion and development of agriculture.

In pinning their faith to some form of All-India Corporation, whatever its particular designation or detailed functions, the advocates of the proposal are influenced by the following, among other, considerations:

(1) The Reserve Bank may expand its credit facilities for agriculture, as indeed it has during recent years. It may, further, promote suitable organizations in States which at present lack them, for the purpose of channelling its credit through them to the cultivator. Even so, it is through co-operative banks alone that by and large the Reserve Bank can operate in this sphere of its activities. But co-operatives have been notoriously inadequate. The Reserve Bank's programme may result in an appreciable addition to available credit for agriculture; but it is not likely to be very considerable even after all possible reforms in co-operative organization are carried out in different States in accordance with the plans worked out by them and the Reserve Bank in conjunction. The main solution must be sought otherwise than through sole dependence on co-operatives.

(2) For medium-term credit, especially, the adequacy of the finance likely to be available from co-operatives, supplemented by the Reserve Bank, will depend primarily on the strength of the share capital structure of different state co-operative banks and central co-operative banks, as also on the size of their owned funds. There is the further limitation imposed on the Reserve Bank itself which, in accordance with recent legislation, cannot advance for medium-term purposes more than Rs 5 crores in all at any one time. This again points to the need for supplementing the existing arrangements with some other institution deliberately designed for these purposes and therefore not subjected to the many limitations which must necessarily apply to the agricultural credit operations of the Central Bank of the country.

(3) There are large areas in which the co-operative credit movement is still in its infancy. In these tracts, and indeed even elsewhere it is necessary to promote the quick development of co-operative credit with the help and association of the State Governments and the Central Government. Coupling this consideration with that of needed co-ordination between co-operative activity on the one hand and National Extension, including Community Projects, on the other, it is necessary that the Planning Commission, the Government of India, the State Governments, and not merely the Reserve Bank, should be mutually associated at the topmost level of policy and direction. An Agricultural Development Finance Corporation would ensure such co-ordination within the framework of its constitution.

(4) From the point of view of the Reserve Bank itself, it is inadvisable that its finances and, even more, its higher personnel should be tied up too intimately with what after all is only one sector, viz., agricultural, of the many-sided functions of the Central Bank of the country. While the Reserve Bank should certainly go ahead with its present programme, the main responsibility for the development of agricultural credit should eventually be shifted to another body such as an All-India Agricultural Credit Corporation or an All-India Agricultural Development Finance Corporation.

These arguments, summarized in our own words, are set out in some detail because even though they are not yet very frequently advanced, they form a significant feature of the background of opinion with which we are here concerned. The points will be dealt with in due course in connexion with the particular lines of solution later suggested in this Report. Meanwhile, it may be noted that, contrary to the views just cited, there is a considerable section of opinion which holds that in a predominantly agricultural country like India the Central Bank cannot well be divested of responsibility for development, operation and control of agricultural credit, whatever the scope and functions of Central Banks may be in the more industrialized countries of the West. This feeling is not new, as can be seen from a perusal of the proceedings of the Central Legislature when the Reserve Bank of India Act was originally passed. So far as one can judge from more recent discussions in Parliament, it continues to be shared by the legislators of independent India. Evidence of this may be found in the recent enlargement of the functions of the Reserve Bank which Parliament has effected through a number of amendments of the statute which governs the Bank. These amendments include an extension of the 'agricultural' purposes for which accommodation may be granted by the Bank, the empowering of the Bank for the first time to supply medium-term agricultural credit to co-operative banks and the further provision which, also for the first time, empowers the Bank to give short-term accommodation for approved cottage and small-scale industries which, since they are ancillary to agriculture, are of obvious importance to the cultivator and to rural India

II. STATEMENT OF PROBLEM: OBJECTIVES AND REQUIREMENTS

CHAPTER II

MAIN ELEMENTS OF THE PROBLEM

Credit and the cultivator

"CREDIT," says an old French proverb, "supports the farmer as the hangman's rope supports the hanged." But if credit is sometimes 'fatal', it is often indispensable to the cultivator. An Indian aphorism in verse tells him that only that village is fit to live in which has "a moneylender from whom to borrow at need, a *vaid* to treat in illness, a Brahmin priest to minister to the soul and a stream that does not dry up in summer". Agricultural credit is a problem when it cannot be obtained; it is also a problem when it can be had but in such a form that on the whole it does more harm than good. It may be said that, in India, it is this twofold problem of inadequacy and unsuitability that is perennially presented by agricultural credit.

Credit and the agricultural industry

2. For many reasons, a problem of this kind is more acute for agriculture than for any other industry. Agriculture is by its very nature rural whereas organized finance, as it has originated and developed in many countries, is urban. Agricultural credit is, therefore, usually the least institutional and the most dispersed of all types of finance; and Sir Daniel Hamilton's reference[1] to the 'power of evil finance' which in his opinion stood in the way of India's development—'the people have many bankers but no bank'—is equally true in its application to many undeveloped countries besides India. It is, however, not to the nature of the credit agency alone that have to be ascribed the main differences between finance for agriculture and for other industries. There are several features of the agricultural industry itself which, in this context, distinguish it from all other forms of industry. Owing to the conditions in which agricultural production takes place, the cultivator finds it impracticable to make use of capital with the same degree of efficiency as does industry generally. First of all, the operative unit is usually very small. Secondly, in many areas, production is dependent on the vagaries of the seasons. Thirdly, the products of agriculture are often perishable or do not lend themselves to being stored for any length of time A fourth distinction arises from the relatively long duration of agricultural operations as compared with the normal industrial operations; the cultivator has to wait for several months, sometimes a year or more, for his harvest. All this makes it extremely difficult for him to plan his production. Nor can he modify or diversify it once the main step of sowing has been taken; he cannot then switch over to another crop on the ground that his own has ceased to command the price he expected. Lastly, there is the question of yield on capital invested. "The farmer does not fix the prices of his produce: they are imposed upon him, so that his profits are limited and he often suffers a loss; and consequently the rate of interest on loans granted to him should be lower than on credit granted to merchants. As long-term capital brings in an even lower

[1] Quoted in H. W. Wolff's *Co-operation in India*, p. 8.

yield than short-term capital, it is necessary that the rate of interest on long-term loans should be lower than on short-term loans, although this is contrary to normal banking practice."[1]

Credit and subsistence agriculture

3. These difficulties, common to agriculture everywhere, are peculiarly great for 'subsistence', as distinguished from 'commercialized', agriculture. The features of a subsistence economy generally—not all of them applicable to India—have been thus described: "On the basis of the situation, mainly in the Far East, a subsistence economy may be characterized as one consisting of numerous villages where each household is engaged in producing food crops, both for its own consumption and for the payment of rent or taxes in kind. Weather and soil permitting, certain fibre crops may also be grown in quantities sufficient for its handicraft work. Depending on the fertility of the soil and the availability of family labour, the size of the farm is necessarily small, and generally fragmented. . . . The little exchange of goods and labour services between villages nearby is carried on mainly by barter. Except for the seasonal migration of labourers, there is no direct contact between the village and the commercial cities. What serves as the link between them is the commercial town located closely to groups of villages on the one hand and to lines of transportation to the cities on the other."[2] Some of these features may be readily recognized in many parts of India. Subsistence agriculture, whether it exists by itself or side by side with the commercialized variety, is disadvantageously placed for attracting the finance necessary for its business. The economic standard of its farm operations is very low. Moreover, a large part of the working funds which the subsistence farmer needs has the appearance of being related to his consumption rather than to his production. Such a farmer in effect requires what is familiar to Governments in India as 'ways and means advances'. Before the last World War, it may be recalled, most State Governments depended a great deal on land revenue which was then the largest single item of their total revenue; and since receipts from this source started coming only after the harvest, these Governments had to borrow large amounts during the course of the year. This would happen even though the budgets themselves might be balanced over the whole year and all amounts borrowed repaid as soon as the revenue flowed in. At the other end, the position of the cultivator from whom came this revenue could well be imagined to be no different. The family budget may be balanced over the whole year but there are no reserves and, until the harvest comes, the cultivator must find the money to meet his needs of production and consumption; he contracts debts; from his harvest he meets his piled up obligations; what remains hardly suffices for a few months and thus, before the new year is far out, there again arises the need to borrow. The fact that, by and large—and barring exceptionally bad seasons—he *does* balance his budget is important. He (especially the medium or small cultivator) lives in perpetual poverty; but the picture of him as living in perpetual bankruptcy is as incorrect as a little reflection will show it to be inherently untenable. His standard of living is low; but at that level he does manage to make both ends meet. Where he cannot even do that, or where policy is conceived in terms of raising the standard of living, the problem becomes one

[1] *Report on Systems of Agricultural Credit and Insurance* by M. Louis Tardy, League of Nations, 1938, p. 8.

[2] From an address by Dr Choh-Ming Li, University of California, *Proceedings of the International Conference on Agricultural and Co-operative Credit*, Berkeley, California, 1952, Vol I, p. 152.

of economic reconstruction and rehabilitation and not of credit alone. In so far as the First Five Year Plan of this country provides such a context, the problem of financing different classes of cultivators, commercialized, subsistence, economic and uneconomic, will be seen at once to be entirely different in quality from that of the financing of urbanized industry or trade or commerce. In India, as we have seen in the foregoing chapters, further and more complicated elements are introduced into the problem by reason of the socio-economic structure of the village, with its characteristics of caste and inequality, with the result that among the main elements of the problem of agricultural credit in this country today may be said to be included not only the financial aspect of providing the needed capital—short, medium and long—for the agricultural industry, but also the economic aspect of development and the social aspect of countering and correcting the repercussions on credit of a markedly unequal distribution both of status and of possessions.

4. Against this background, however, there are various technical aspects of analysis and classification which must figure in any detailed discussion of the problem. All these appear in requisite detail in the Survey Report; and if the more elementary features of the framework are briefly set out here at one place it is merely because these might be of use with reference to the further treatment of the subject in this volume.

Types of borrower

Preliminary to a classification of the types of agricultural credit is that of the borrower himself into different classes. In Indian conditions, the borrower has to be classified not only in relation to the type of his farm business -e.g., cash crop, food crop, fruit garden, mixed farming (agriculture combined with animal husbandry), etc.—but also in accordance with his economic status such as has been broadly attempted in the Survey by the division of cultivators into different deciles with reference to size of cultivated holding, and the further grouping of the deciles into 'big', 'large', 'medium' and 'small'.

Classification of credit: (i) Period-wise

5. Apart from the borrower, there are four principal ways of classifying agricultural credit as will have been noticed in different parts of the Survey Report: period-wise, purpose-wise, security-wise, and creditor-wise. The term or period of the loan is the most common means of describing it, e.g., short-term, medium-term and long-term. In a sense, the period-wise division is a general classification of which the other three—viz., purpose, security and creditor—may be regarded as sub-divisions within each group. Thus, a short-term loan may be borrowed for consumption or for production; on personal security or with land as collateral; from a moneylender or from a co-operative society. Medium and long-term loans are borrowed for purposes such as marriages and funerals, just as they are also borrowed for productive purposes such as sinking wells or buying bullocks; and the source for such loans is in many areas the moneylender rather than the co-operatives or the Governments. For the purpose of the recommendations later made in this volume, we propose to designate as 'short-term' all loans of which the period does not exceed 15 months, and as 'medium-term' those which are for longer than 15 months but are repayable in 5 years or less; all other loans will be treated as 'long-term' loans. Short-term loans are frequently made for 12 months, especially

by co-operatives, often on the implied understanding that they will be renewed thereafter. The renewal is quite frequent in practice and sometimes the loans are carried forward indefinitely from year to year. As will be seen later, it is an important element of proper institutional arrangements to draw an effective distinction between short-term, medium-term and long-term loans. Long-term loans, especially of the co-operative variety, usually range from 15 to 20 years. The somewhat indiscriminate manner in which long-term loans generally are designed to be repayable over a uniform period of 15 or 20 years, irrespective of whether the amount borrowed is for a minor improvement and can be repaid within 5 or 6 years or is for some major item of development and consequently needs a longer period of repayment, is a point of some importance in considering the reorganization of the loaning policies of co-operative land mortgage banks.

(ii) Purpose-wise

6. The two main aspects of purpose are production and consumption. Short-term loans for agricultural production and for the marketing of crops represent the bulk of the institutional agricultural credit today available in the country. It is necessary to bear in mind, in this context, that consumption loans (of the type already mentioned) which the producer borrows for maintaining himself and his family before the receipt of his income from the harvest stand on a different footing from consumption loans connected with ceremonial expenditure etc. Medium and long-term loans, too, are taken for purposes of consumption no less than for production. Among the more usual items of long-term borrowing are those connected with repairs to residential houses, litigation, repayment of old debts, etc. In devising remedies, therefore, one has to remember that two important elements of the problem are the need to restrict borrowing for wasteful domestic or social purposes and, along with it, the need to ensure that normal and necessary borrowing for consumption is not left unprovided for in institutional finance.

(iii) Security-wise

7. Turning to classification by type of security, it may be noted that long-term loans are usually secured, whereas short-term loans are sometimes secured and sometimes unsecured. A point of importance which arises in regard to long-term loans for land improvement or other agricultural development is, therefore, the existence of an owned asset which can form the basis of proper security such as a right in land that can be mortgaged and, if occasion arises, sold. Unsecured short-term loans, usually given on personal bond, are a common feature of the moneylenders' operations; in theory, loans based on personal considerations such as character and repaying capacity are the orthodox model for short-term co-operative finance. The extent to which institutional finance, especially co-operative, is in practice based, not on these considerations, but on some form of security connected with land, will be seen later to be one of the more significant aspects of the problem of rural credit.

(iv) Creditor-wise

8. In the creditor-wise classification of loans, account has first to be taken of the broad division between the private credit agencies on the one hand and the State or State-sponsored agencies on the other. Among the former are the moneylender, the indigenous banker, the commercial bank and the trader; the moneylender, in turn, may be classified (as in the Survey) as either 'professional' or 'agriculturist'; and supplementing all these in appreciable or even

large degree in certain parts of the country are 'relatives' from whom (by definition of the term for the purposes of the Survey) the cultivator gets interest-free accommodation. The State-sponsored agencies consist, firstly, of the Governments themselves, secondly, of the co-operative credit institutions, and thirdly, of the Imperial Bank and the State-associated banks. The last mentioned institutions, however, cut across the two main categories: they are both private and State-associated.

Other considerations

9. Among the matters to be kept in view, then, are on the one side the different types of borrowers and on the other the different agencies of credit: there are, besides, the periods and purposes of credit; it will be clear from this that one of the main elements of the problem of rural credit as a whole in India may be described as the aspect of co-ordination, e.g., co-ordination of need and purpose with period, co-ordination between the agencies themselves, and co-ordination of the system as a whole with the objectives of governmental policy. These latter, i.e., the objectives of the State in the context of rural credit, form the subject of the next chapter; while the one which follows it deals with the requirements which must be postulated in respect of a system of agricultural finance designed to meet those objectives.

CHAPTER 12

CLARIFICATION OF OBJECTIVES

Quantitative and qualitative objectives

IF the reorganization of rural credit were conceived in purely quantitative terms, it would still, in the light of the data of the Survey, be a big enough task to undertake. In relation to the period covered by the Survey and on the basis of the data recorded, the total *annual* borrowings of the cultivator short, medium and long—may be very broadly estimated for the whole of India to be of the order of Rs 750 crores. If, hypothetically, reorganization were to aim at half of this being taken over by one or more institutional agencies associated with Government or working in conformity with its policies, the total volume of agricultural credit then supplied by such agencies would be more than eight times the combined accommodation now available from the Governments and the co-operatives, after taking into account the finance obtained by the latter from the Reserve Bank. But much larger agricultural production is one of the main objectives of national policy, and the size of agricultural finance will obviously have to increase with the size of the production itself. The fact, however, is that the problem of rural credit in India is of much greater magnitude than if it had been merely one of magnitude. This follows from a number of extremely important considerations which, apart from adequacy of volume, have to be borne in mind. These are related to:

(1) the general criteria which a suitable type of credit should satisfy;

(2) the handicaps external to the present institutional arrangements, and the defects internal to them, which have to be surmounted or rectified;

(3) the further strengthening of those arrangements with the object of making the institutional system of which they are part an effective alternative to the private moneylender;

(4) the maximum possible conformity of the system to the programme of larger agricultural production; and

(5) the maximum possible observance, in devising the system, of certain directives of the Constitution.

Criteria of sound agricultural credit

2. The criteria to be fulfilled may be set down as follows in the words of M. Louis Tardy:

"(1) It should be granted for a sufficiently long period, commensurate with the length of the operation which it is designed to facilitate;

(2) It should be granted at a low rate of interest;

(3) It should be adequately secured, in order, more particularly, to avoid any abuse of credit facilities, but the security should not necessarily be material: it should, if necessary, be in the form of a personal credit secured mainly by the borrower's moral standing and farming ability;

(4) It should be adapted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression;

(5) It should be placed in the hands of institutions the directors of which have received special training and had actual banking experience."[1]

We may briefly consider some of these criteria in their relation to present conditions in India. The first relates to conformity between the period of the loan and the purpose of the operation. Obviously, this presupposes that the purpose is not only defined but is explicitly understood between lender and borrower. On the part of the lender, it also implies the exercise of supervision. Private agricultural finance is unconcerned about purpose; while, as regards period of repayment, private loans tend, for various reasons, to be either too rigid on the one hand or too elastic on the other. Such little institutional finance as is available from co-operatives formally purports to be short-term for the most part, whereas in actual practice it tends to be medium-term or even long-term; at the same time, purpose, even if stipulated, is not effectively supervised. The last observation applies with even greater force to institutional finance from Government. The second criterion relates to a low rate of interest: private finance has no such object in view; co-operative finance is often unable to achieve it; and Government finance, which sporadically aims at it, does so without plan or co-ordination. The third desideratum—a form of security which suits the borrowers' standing and ability without making the credit itself facile—is something which neither private nor institutional finance satisfies today. Co-operatives and Governments usually demand a type of security which involves an ownership-right in land or the guarantee of someone who has such a right. The moneylender's credit, on the other hand, till recently at any rate, has tended to display the opposite quality of being facile. The fourth criterion, which is adaptation of repayment to fluctuations in production and price and, therefore, in repaying capacity, is of great importance in this country. The obverse of this requirement is the ability of the credit agency itself to withstand the deferment of dues; the plight of co-operatives after the depression of the thirties demonstrated the lack of such ability. This consideration, therefore, underlines the need for some form of stabilization of institutional credit for agriculture, e.g., through reserves built up during the more prosperous years. The last of the requirements mentioned above relates to trained personnel, again a matter of importance, as is demonstrated by the working of the generality of co-operative societies and co-operative banks in India.

Handicaps

3. Passing on to the next set of considerations, a distinction may be drawn between the handicaps which a system of finance can only seek to counteract, and not remove, and defects or shortcomings which are within its competence to rectify. The foreign experts, whose report was made available to the Central Banking Enquiry Committee, listed, more than 20 years ago, the

[1] *Report on Systems of Agricultural Credit and Insurance*, League of Nations, 1938, p. 35.

following among the main handicaps to the proper operation of agricultural finance in India:

"(1) Uncertainty concerning most crops in parts of India owing to drought conditions.

(2) System of land tenure:

(*a*) prevailing tenancy system;

(*b*) small size of holdings and their fragmentation;

(*c*) insufficient legal protection of the tenants with regard to terms of lease;

(*d*) joint-family system.

(3) Inefficient marketing of produce.

(4) Illiteracy."[1]

In certain respects, significant changes have been initiated in regard to some of these conditions. Thus, a large programme of irrigation, both major and minor, has been planned and in part effected, though it cannot be said that scarcity and famine have as yet been substantially reduced. In regard to tenure and tenancy, several radical reforms are in process of implementation as we have seen in a previous chapter. But the holdings are still very small and, until schemes of co-operative farming show signs of making much greater progress than hitherto, one of the basic handicaps with which any system of agricultural finance in India will have to contend will remain, namely, the smallness of the operating unit of the cultivator. The main implications of this, from the point of view of credit, may be said to be two:

(*a*) One of the major ways of increasing production will be the more intensive use of seed, fertilizer, etc. These will have to be provided on credit, preferably in kind, to the smaller cultivator.

(*b*) The impracticability of dealing institutionally with a very large number of relatively small cultivators points to the need for the co-operative type of finance rather than the 'corporation' type in which the financing organization deals direct with the individual cultivator.

The third difficulty pointed out by the foreign experts is the inefficient marketing of produce. The operations of private enterprise, which dominate this sphere, are extremely unfavourable to the cultivator; and the trader himself is a formidable opponent to the co-operatives. In the interests of the producer, as well as of the development of a system of institutional finance for his benefit, it seems clear that one of the most important directions of reorganization is the development of institutional marketing in co-ordination with institutional credit.

The last of the handicaps cited by the foreign experts is illiteracy; this, in the context of the social background set out at some length in the extracts included in Chapter 5,

[1] *The Indian Central Banking Enquiry Committee*, **1931**, *Majority Report*, p. 689.

may be enlarged to mean not only the educational, but also the socio-economic, backwardness of the medium and small cultivator who is most in need of the protection and facility of institutional arrangements for credit, marketing, processing, etc. In the devising of the system, in prescribing who shall control it at different levels, and in providing for the personnel who are to run the system, it will, therefore, be of paramount importance to ensure that the interests of the weaker producer are at every stage safeguarded to the maximum extent possible and that adequate finance is made available to him on conditions not more onerous than to the bigger cultivator or the larger owner of land.

Short-comings

4. In terms of co-operative finance, the principal defects may, at this stage of our examination, be summed up compendiously as the almost entire absence of those characteristics of proper agricultural finance which Nicholson enumerated in the following words: "Absolute *proximity* of lender and borrower; complete *security* to the lender as regards the title of the property offered, its freedom from prior encumbrances, the recovery of his capital and interest at due date, in convenient amounts, with facilities for enforcing such recovery in case of arrears; thorough *safety* and *facility* to the borrower, in his ability to obtain cheap loans, at any time, to an amount proportionate to the security he can offer, and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risk of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruits of his prudence, and find in credit, a powerful auxiliary to his productive powers and stability. In particular, the terms of repayment must be such that he can replace the loan from the profits of the transaction for which it was obtained; an improvement to land must be repayable by instalments over a long series of years; a purchase of stock must be similarly repayable over a shorter series; advances upon crops or for maintenance may be repayable in lump or by instalments according to convenience. It is axiomatic that loans sunk in improvements or enterprises in which the returns are gradual, shall not be repayable except by instalments over a period proportionate to the nature of the enterprise."[1]

To these important but unfulfilled objectives may be added the requirement that credit should be positive, productive and thrift-creating, instead of negative, unproductive and dangerously facile. To quote Nicholson again ". . . it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower . . . the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful, and productive."

"It is emphatically *not* the mere outpouring of cheap capital that is required, *not* the mere grant of cheap and facile credit to classes unprepared for the boon: what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses, and limits of credit; in other words, the

[1] *Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency*, (1895), Vol. I, p. 3.

development of the essential national virtues of thrift, foresight, and self-help, through institutions organized for those ends."

As we have said, the absence of these principal virtues of agricultural credit may be said to constitute the principal defects of the present system. Ways and means will, therefore, have to be devised for strengthening the resources of the co-operative organization, in the matter of finances and personnel, with the object of enabling it to rectify these defects.

Alternative to moneylender

5. The main lines of solution of the problem of agricultural credit indicated by the Agricultural Finance Sub-Committee (1945) include the establishment of an agency of credit which will be an effective alternative to the private moneylender and the provision of adequate finance by such agency to all creditworthy agriculturists. The data of the Survey reveal the utter inadequacy of the finance now supplied by co-operatives to large numbers of agriculturists whom it would be unrealistic to lump together as 'non-creditworthy'. Unless sufficient finance, mainly for production but where necessary also for consumption, is institutionally provided for, the objective of devising an effective alternative to the moneylender is bound to be frustrated. Two important considerations to be kept in mind in a scheme for reorganization are, therefore, the adequacy of resources available to the credit organization and the adaptation of the operations of the organization to the needs of those solvent producers who, for various reasons, now fail to obtain adequate credit from co-operatives. In this respect, therefore, the criteria of sound credit we have referred to, as well as the institutional requirements stressed by the Agricultural Finance Sub-Committee, point to an identical conclusion in regard to the set of objectives to which the country's agricultural finance will have to be oriented.

Economic objective of larger production

6. There remains the very important consideration that the reorganization, both financial and administrative, will have to be of an order which will conform, not merely to existing requirements of production, but to the much larger ones envisaged in the national programme of development. We have elsewhere given figures to show that, during the period of the present Five Year Plan, a very substantial increase over present agricultural production is contemplated. Even a more considerable increase may be expected to be provided for in the second Five Year Plan. We have also indicated that there is reason to believe that the growth of population in the country will make it incumbent to raise food production to the highest level feasible. The main directions in which increased production is to be effected include much larger irrigation as well as the more intensive employment of better seed, better fertilizers, etc. All these will multiply very substantially the several types of credit needs of each of the main categories, short, medium and long, of all classes of cultivators. Even more important than the magnitude of the resources which the credit system will hereafter require is the other aspect related to the objectives of the Plan, namely, the effective linking of credit with purpose. From this point of view it may be said that perhaps the most pressing need in regard to the credit system is to ensure the productive character of the fin nce it supplies.

Constitutional directives including social objective of greater equality

7. We have elsewhere referred to one of the objectives embodied in the Constitution of India, viz., reduction of inequalities, and pointed out its special relevance to the designing of a system of institutional finance which not only provides adequate credit for the medium and small cultivator but also protects him against the socio-economic disadvantages to which he is today subjected. Along with the agricultural producer must be considered the other important rural producer, namely, the rural handicraftsman, whether in his individual capacity or as a member of a co-operative organization. The system to be devised will, if possible, have to cater no less for him than for the cultivator. This is dictated quite independently by economic considerations; but it is also relevant to recall in this connexion Article 43 of the Constitution of India which lays down as a directive principle of State policy that, among other things, " the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas." In the light of this and other directives, the State's duty to bring about an increase in agricultural and other rural production and better conditions in which the production takes place, and to effect improvement of the rural economy generally, are among the foremost aspects of national policy to be kept in mind both in formulating the objectives of future agricultural finance and in devising the institutional framework and structure through which that finance will be made available to the producers of wealth in rural areas.

CHAPTER 13

MAIN REQUIREMENTS IN A SOLUTION

IN the objectives discussed in the last chapter are implicit some of the main requirements which reorganization must fulfil. The manner of fulfilment can only be considered at a later stage and after much fuller examination of the problem; but, as broad features to be sought in the reorganized system as a whole, the requirements which have so far emerged may meanwhile be tentatively listed. Several considerations, including the need to invest credit with a productive purpose, point to the requirement of an institutional system associated with the policies of the State. Since, in contradistinction, rural credit today is largely private, and the creditors themselves mostly individuals controlled by, but otherwise unassociated with, the State, the institutional system must be an effective alternative to— not necessarily a complete substitute for— the private agencies of credit. It follows that it has to have the strength of adequate resources and of well-trained personnel as distinguished from the weakness which, subject to further analysis, may be provisionally noted at this stage as a characteristic of co-operative credit whether in finance, administration or supervision. Further, the system has to be co-ordinated not only internally in relation to the different institutional sectors pertaining to short-term, medium-term and long-term credit but also with complementary institutional arrangements for marketing, processing and other important economic activities of the cultivator. While providing adequately for essential items of consumption, its main concern should be with loans for production. Among these latter, again, the period and rate of interest of different types of loans should be related to the purposes for which they are borrowed. Lastly, the type of security should be such that, consistently with its adequacy from the point of view of the creditor, as large a number of solvent producers as possible (and not merely, for example, those who own land) can avail themselves of credit on the basis of such security. This important aspect assumes even further importance in the context of production geared to a plan. In the new arrangements, therefore, a large part of the credit would have to be that advanced to the producer on the strength of his anticipated crop, for example, rather than of the more usual and more tangible forms of security. Moreover, the credit agency should be one which is in a position to co-ordinate its activities with those of all the important institutional agencies, including Government, which may be engaged in guiding the villager, improving his methods of cultivation, supervising his operations or educating him to avoid wasteful practices; it should also be one which disburses its credit in a positive and constructive way and constantly has in mind the borrowers' legitimate needs and interests.

Needed features of institutional system

2. In addition to these, there is one basic consideration to which it is the main purpose of this chapter to draw attention. For any institutional arrangements of this type to be effective, there has to exist, in the village itself, some form of association of the producers who borrow. The alternative of the institution dealing with each individual cultivator is usually unworkable; and it is not conducive to the results aimed at. The need for a borrowers' association, big or small, in analogous contexts has been demonstrated over and over again

Association of borrowers

both in other countries and in India itself. Long ago, for example, when the Government of India was interested in the production of indigo and found itself in the position of having to give credit for such production, it realized the necessity of organizing the disbursement of credit on the basis of associations of producers in each village. Obviously, such an association has many advantages not only for the disbursing agency but also for the borrowers themselves. Where the creditor is Government, or an institution carrying out State policies, certain obvious advantages in dealing with an association are that administration is less complicated, matters are brought out into the open, and the better elements in the village can be entrusted with some degree of positive responsibility both for pursuit of policies and discharge of obligations. Moreover, the recovery of amounts advanced is also likely to be easier where the creditor has to deal with groups of borrowers. From the point of view of the borrowers, the advantages include the possibility of the more well-to-do assuming joint responsibility for the less fortunately placed. In its simplest form, this type of association can be the basis for giving loans to different individuals on the joint responsibility of several. An interesting example may be cited from Tripura where Government loans to landless hill-people are given on the strength of joint bonds taken from groups of hill-men. Joint bonds have also been used in West Bengal in granting loans for the relief of distress caused by famine. Other instances of Government loans based on similar forms of collective security are reported from Uttar Pradesh, Madhya Pradesh, Bihar, Assam, etc. The same concept operates in other countries and even in more complex circumstances. Thus, under an agricultural bill system, introduced in Japan in 1948, the borrower's responsibility to repay must be shared by not less than five persons belonging to the farming community in which he lives. Where corporations or banks, such as the Agricultural Credit Bank of Egypt for example, have attempted to disburse agricultural credit through direct dealings with individuals, the operation of the system has in each case tended to bring out forcibly the need to deal with associations, preferably co-operative associations. It is interesting to note that the Agricultural Credit Bank of Egypt, after some years of experiment with a different system, has recently been so reorganized as to enable it to operate mainly through co-operatives.

Basic importance of the co-operative form of association

3. Starting, therefore, from the assumption that agricultural credit in this country, considered as an organized system with certain purposes to be fulfilled from the point of view of State policies, must necessarily be organized on the basis of an association of cultivators in the village, we come to the second point in this argument, namely, that there is every reason why such an association should be co-operative. An association of borrowers obviously ought to depend as much as possible on mutual aid, develop their own strength and at the same time cultivate the habit of thrift among themselves. The co-operative credit society, as first introduced into this country, was intended to undertake these very tasks. Today, more than ever before, there is every reason for an institutional system of rural credit to be based on a co-operative association in the village. This need has been recognized by different authorities in different contexts. We quote below from the Statutory Report of the Reserve Bank of India (1937):

> "The question of agricultural finance is therefore closely linked up with the question of the improvement of agriculture. Before credit can become freely available to the farmer he must be made creditworthy.

"This consideration has an important bearing on the agency most suitable for supplying finance to agriculture in this country. It must have an educative as well as a purely business side. It should supervise the use of credit and see that the farmer employs the money obtained by him in improving the productivity of the land and making the business of agriculture more profitable. An impersonal agency like a loan office which is concerned solely with the profitable investment of its funds cannot serve this purpose and commercial banks generally suffer from the same handicap when dealing with the agriculturist. The credit extended by the tradesman is even more heedless of the benefit to the cultivator. The private moneylender does supply a personal touch but he also is primarily concerned with his own profit. The other great drawback in moneylender's credit is that he tends to charge very high rates of interest, though this is partly as an insurance against the risks attached to farming and the possible dishonesty of the borrower or legislative interference. When Government finances the agriculturist it may be expected to see that what it lends is profitably utilized, but it is inherently not qualified to act as a general financing agency. An agency which satisfies the requisite conditions for agricultural finance is the co-operative society and it has been so recognized in almost all agricultural countries. However short the co-operative movement may have fallen of what was expected from it in India, we feel that further effort should be made to render it capable of discharging in the best manner the function of supplying credit to the small agriculturist and we have no hesitation in saying that if credit facilities to the Indian agriculturist are to be improved the co-operative movement must be reconstructed and revitalized so as to serve not only as an effective credit agency but as a motive power for the improvement of agriculture from every point of view."[1]

The *Report of the Grow More Food Enquiry Committee* (1952) emphasizes the need for co-operatives in the following terms:

"It would be useful at this stage to stress the great part the co-operative movement can and should play in improving rural life. The co-operative principle, in its infinitely varying forms, is capable of adaptation for finding a solution to all problems of rural life. In fact, it is only in the co-operative principle that such a solution can be found."[2]

We would, therefore, in addition to the requirements, structural and operational, arising from the objectives mentioned in the last chapter, postulate as one of the principal requirements of a proper system of agricultural finance in this country that it should be such as (1) can effectively make use of the existing co-operative organizations at the rural base, (2) helps in the further extension and development of such organizations, and, conversely, (3) does not in any manner retard such extension or development.

Even if, from the further analysis of data in the following chapters, the record of the co-operatives in the sphere of agricultural credit emerges as defective in more than one way, the fact needs to be emphasized that the co-operative agency still remains, in many respects, by far the least unsatisfactory channel of credit to the cultivator, and that in all the important qualitative aspects the record of private credit agencies is much worse than that of co-operative credit institutions. At this stage, we would lay down as a proposition that the reorganization of agricultural credit in India must be based on some form of co-operative association of cultivators within the village itself.

[1] Pp. 6-7. [2] P. 55.

III. SEARCH FOR SOLUTION: THE PRIVATE CREDIT AGENCIES

CHAPTER 14

RECORD OF MONEYLENDERS, TRADERS AND INDIGENOUS BANKERS

I. PATTERN OF SUPPLY OF PRIVATE CREDIT

Predominance of moneylender

THE data derived from the General Schedule reveal that, during the year of the Survey, the private credit agencies taken together (excluding commerical banks which are dealt with in the next chapter, but including professional moneylenders, agriculturist moneylenders, relatives, traders and landlords) supplied about 93 per cent of the total amount borrowed by cultivators. The combined contribution of Government and the co-operatives was about 6 per cent of the total (each accounting for about 3 per cent). As for commercial banks, 1 per cent represented the insignificant part played by them in the direct financing of the cultivator. The estimated percentages for the different agencies are reproduced below for ready reference:

Credit agency	Proportion of borrowings from each agency to the total borrowings of cultivators Per cent
Government	3.3
Co-operatives	3.1
Relatives	14.2
Landlords	1.5
Agriculturist moneylenders	24.9
Professional moneylenders	44.8
Traders and commission agents	5.5
Commercial banks	0.9
Others	1.8
Total	100.0

The private moneylender thus dominates the scene, the professional moneylender with about 45 per cent, and the agriculturist moneylender with nearly 25 per cent, of the total.

A more detailed break-up, by purpose and duration, can be worked out on the basis of the intensive enquiries conducted in respect of about 9,000 'selected' families of cultivators. This is given below:

Amount borrowed from this agency as percentage of the total borrowings from all agencies

Purpose-duration	Government	Co-operatives	Agriculturist moneylenders and landlords	Professional money-lenders, and traders and commission agents	Others (commercial banks, relatives and others)	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agricultural						
Short-term .	2.8	11.3	36.2	35.2	14.5	100.0
Long-term ..	6.0	2.4	41.5	31.9	18.2	100.0
Non-agricultural						
Short-term ..	—	0.5	26.9	38.6	34.0	100.0
Long-term ..	0.6	-	6.2	85.8	7.4	100.0
Consumption						
Short-term ..	2.1	2.2	32.7	43.5	19.5	100.0
Long-term .	1.0	0.9	38.7	37.2	22.2	100.0
Repayment of old debts	0.8	8.7	52.3	23.2	15.0	100.0
Other purposes ..	0.8	2.4	25.0	59.9	11.9	100.0

While these figures reveal that the combined contribution of Government and the co-operatives is small in the total context—being 14 per cent of the entire borrowings for short-term agricultural purposes and 8 per cent for long-term (including in this particular context medium-term) agricultural purposes—they also show, from another point of view, that the part played by Government and the co-operatives is of greater significance for production than for consumption. Thus, long-term agricultural loans from Government account for 6 per cent of the total borrowings of this category as compared with 1 per cent from Government for long-term loans for consumption. Co-operative loans, on the other hand, are seen to be relatively significant for short-term productive credit; they constitute about 11 per cent of the total short-term agricultural borrowings as compared with only 2 per cent which is the corresponding figure for short-term co-operative credit for consumption. At the same time, of course, it is to the private credit agencies that the cultivator has to turn for much the larger part of his requirements in each of these respects.

Relatives

2. Loans from 'relatives' accounted for 14 per cent of the reported borrowings of cultivators, all such loans (by virtue of the definition of the term 'relative' for the purposes of the Survey) being interest-free; where interest was charged by a person related to the borrower, the loan was classed under the particular agency—agriculturist moneylender, trader, etc.—corresponding to the occupation of the lender. Relatives were of special importance in certain districts.

3. The corresponding figures were 2 per cent for landlords and 25 per cent for agriculturist moneylenders. That a very large number of the moneylenders were also cultivators is independently confirmed by the fact that roughly 68 per cent of the village moneylenders who answered the relevant question stated that they were also cultivators, while about 10 per cent said that they were non-cultivating landlords. It may be assumed that approximately one-fourth of the total available credit was found internally by the agriculturist classes themselves. But it was mainly the large cultivators who were in a position to lend. In roughly 1 out of 6 districts, more than 90 per cent of the total dues were reported to be owed to the group classed as large cultivators. In 58 out of the 75 selected districts, more than 60 per cent of the dues were reported to be owed to that group.

Agriculturist moneylenders, landlords, etc.

The Central Banking Enquiry Committee made the following observations in 1931: "The Bombay Committee report that the agriculturist moneylender is often more exacting than the professional moneylender. . . . The Punjab Committee report that there is no great difference between the methods of the agriculturist moneylender and those of the professional moneylender, though his rates are probably lower. He is said to be avaricious and exacting, and being to some extent in a stronger position than the professional moneylender, he recovers a large proportion of his dues. His main and sometimes his sole object is to get possession of the land of his debtors. The United Provinces Committee also report that the methods of the agriculturist moneylenders may not differ materially from those of the professional moneylenders in such matters as security, the renewal of bonds, the rates and calculation of interest, but they necessarily regard their operations in a somewhat different light. Moneylending to them is not always a mere investment: it often has an ulterior motive."[1]

There are certain points on which the data for the selected districts reveal interesting, even if minor, differences between the agriculturist moneylender and his professional counterpart. One of these relates to landed security. In the rice-growing hilly districts pertaining to Assam and West Bengal, and in the rice-growing districts of the eastern coastal area and of Bihar, West Bengal and Uttar Pradesh, a larger proportion of the debt owed to the agriculturist moneylender than of that owed to the professional moneylender is against the security of immovable property. While bullion and ornaments are not a usual form of security for either in most regions, the debt owed to the professional moneylender against this type of security is in a number of areas a larger proportion of the total than that owed to the agriculturist moneylender. One noteworthy aspect, however, is common to both professional and agriculturist moneylenders: about four-fifths of the debt owed to either class is unsecured.

4. Approximately 6 per cent of the total borrowings of cultivators was from traders and commission agents. It must, however, be noted that several moneylenders, especially urban moneylenders, combine other activities with moneylending:

Traders

[1] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, pp. 75-6.

Proportion of moneylenders carrying on this additional profession (or one or more of the additional professions specified) to the total number of moneylenders who responded to the relevant question

Village Moneylenders				Urban Moneylenders			
Cultivators	Non-cultivating land-owners	Traders, general merchants, brokers, commission agents, goldsmiths, shopkeepers and others	No profession other than money-lending	Cultivators	Non-cultivating land-owners	Traders, general merchants, brokers, commission agents, goldsmiths, shopkeepers and others	No profession other than money-lending
68	10	38		29	14	78	

Thus, among those who gave the particulars asked for, about 10 per cent of the village moneylenders and 14 per cent of the urban moneylenders were non-cultivating landlords. Some 38 per cent of the village moneylenders and 78 per cent of the urban moneylenders had in addition one or more of the other professional capacities specified, viz., they were also traders, general merchants, shopkeepers, etc.

Out of the 75 selected districts, there were 3, viz., Malabar, Quilon and Nizamabad, in which the proportion of borrowings from traders and commission agents to the total borrowings was as high as 57 per cent, 29 per cent and 22 per cent respectively. While in 17 out of the 75 districts it was reported that no loans had been taken from traders, the proportion of reported borrowings from this source was quite high in some of the more commercialized districts. Thus, among cotton-growing districts, it was 20 per cent in Parbhani, 14 per cent in Broach, 10 per cent in Sorath and 6 per cent in Akola; or, to take those districts which had a relatively large trade in spices etc., the proportion was as high as 57 per cent in Malabar and 29 per cent in Quilon, while it was 12 per cent in Hassan. But there is a very thin line of distinction indeed between what the trader may professedly advance as ' loan ' and what he may virtually advance as instalment of purchase price. It is noteworthy that, in certain districts, a very high proportion of the total advances from traders, formally classed as ' loans ', carried no interest:

District	Amount ' lent ' interest-free by traders and commission agents as percentage of the total amount of 'loans' from them
Malda	100.0
Midnapore	100.0
Aligarh	100.0
Bhilsa	100.0
Ratnagiri	100.0
Jalpaiguri	99.5
Sirmoor	95.9
Mirzapur	91.1
Nagpur	89.6
Poona	83.7
Malabar	74.7
Sorath	69.5
Quilon	64.5

These few districts are fairly indicative of what is well known to be a common practice in many parts of the country. Commenting on such interest-free loans from traders, a non-official respondent from Hazaribagh writes: "Wholesalers give advances to cultivators by way of *dadan* for which no interest is payable; but the cultivators have to sell off the surplus crop to them at definitely cheaper prices." The general manager of the State Bank of a Part C State says: "Private moneylenders grant loans against crops. The system is known as *dadan*. The *mahajans* (moneylenders) take away the entire crops against the *dadans* granted by them. Every *mahajan* has his own clientele and he maintains a running account in respect of each of them."

We have elsewhere drawn attention to the fact that in many instances sales of produce in the village noticeably preponderate over sales outside the village, e.g., at the marketing centre. In a significant number of districts in which village sales were a marked feature, the cultivators reported themselves indebted to the traders in respect of a large proportion of the sale transactions they had entered into with the latter.

II. CERTAIN OTHER ASPECTS OF PRIVATE CREDIT

The ways of the moneylender

5. We have seen that among creditors the moneylender, and among moneylenders the professional moneylender, dominates rural credit. The dominance itself has been made possible by the ineffectiveness of all attempts hitherto made to organize a competitive agency for the supply of credit for the rural areas; the main fact meanwhile is that the needs exist and must seek such fulfilment as they can in the given conditions. It would be wholly incorrect to think of the moneylender as merely exploiting those needs; he also adapts himself to them. Among other things, it is this adaptation which explains his survival in the village, whereas the legislation which has sought to control him survives, by and large, only on paper. It is necessary that we try and understand, if we can, the ways of the moneylender as he pursues his calling in the village.

First, there is little that escapes his eye in the circumstances of his debtors or of those who may one day be his debtors. What co-operatives merely postulate, he actually possesses, namely, a local knowledge of the 'character and repaying capacity' of those he has to deal with.

Second, he has different kinds and degrees of hold on those to whom he chooses to lend. Least important of all for him is the possibility of having recourse to the law; and almost as unimportant (especially nowadays) is the possibility of acquiring his debtor's property. This predisposes him, in most cases, to dispense with the requirement of land as security, an aspect to which we have already referred. Usually, the compulsion which he depends upon is one which he has reason to hope will operate more or less automatically. If need be, of course, he is prepared to exert himself and set in motion the forces of compulsion. Those forces are social or economic or both. They are different for different debtors, but are in each case related to how the debtor is circumstanced in the village. The social compulsion is connected with considerations such as loss of 'face' or local prestige, caste disapproval, possible pressure through the caste *panchayat* and a variety of other social sanctions which, because they happen to be intangible, are not on that account any the less powerful. There are also a number of ways of economic compulsion. One form of pressure is that which the moneylender can himself exert by threatening

to withhold further credit. Another is that which it may be possible to apply through some other creditor, especially the trader from whom the cultivator may have taken an advance. Both these varieties of pressure become one and the same if the moneylender is himself the trader, as is so often the case. Since moneylender, trader and landlord—not to mention village headman and village accountant—are not without their code of mutual obligations in the village, it may also happen, in some instances, that the moneylender approaches the borrower's landlord, if he has one; for, to the owner of the land the cultivator is likely to have been beholden already in more ways than one. These do not exhaust the various ways of applying the economic sanction; but they are fairly illustrative.

Third, it does not follow that he will invoke the forces of compulsion the moment payment has become due. This is a matter on which, being unfettered by institutional codes, he can be as rigid or as elastic as realism dictates. Often, of course, he has to reckon with the fact that both debtor and he will have to continue to live in the same village.

Fourth, having, in the light of all these possibilities, decided on whether and how much he is going to lend and on what terms, he is free to follow as flexible a procedure as he likes in regard to the actual operation of lending. He may or may not insist on a formal document of debt, though he usually does. With due regard to what he wants, and having meanwhile arrived at his own reading of the situation generally, he proceeds to consider whether it is worth while to make the document conform to truth; if he concludes that it is not, his next step is to decide on the precise extent to which the record shall deviate from the more accidental facts of the transaction such as principal, interest, period of repayment and security. Finally, he may, if forced to it, even decide to alter the nature of the transaction itself, and, for example, contrive that loan is entered as sale, if the former is inconvenient.

Fifth, and perhaps most important of all—and at the same time illustrative of his adaptation to needs—is his ability promptly to hand over the money, in order that some expenditure which brooks no delay may be helped to be met at once; there is no need for him to await someone else's sanction, and the compulsions mentioned above enable him, if he so chooses, to dispense with or postpone all or any of the legal formalities.

If, to the substance of the technique described above and to the realities of the village setting in which the technique operates, we add the fact of the moneylender's virtual monopoly of rural credit, we shall have got together the essentials of the situation. It is one in which practically the only credit agency accessible to the cultivator is either 'good' or 'bad', extortionate or reasonable, according as a combination of circumstances in each village dictates. The combination includes two important items among many others. One of these is what sort of person the particular moneylender happens to be. The second is whether there exists, in the village itself, anything which is likely to frighten the moneylender in his turn. In other words, just as he uses certain sanctions against the debtor, are there similar sanctions which can be used against him, the creditor? Different villages will provide different answers, except of course that nothing internal to the village seems so far to have succeeded in subduing or dislodging any large number of moneylenders. The private moneylender shows no signs of disappearing. That brings us to the point that, after all, the merit as well as the demerit of private credit is that it is private; and the real question—which will come up for discussion in a subsequent part of the Report—is whether this matter can be left to be worked out by the local socio-

economic conditions of each village in conjunction with the private resources and private virtues (or the lack of them) of the moneylender or moneylenders of each village. Meanwhile, on account of their relevance to the picture of the moneylender just drawn, we quote from views expressed by respondents from different parts of the country.

Respondents' views

6. Commenting on the advantages of the private moneylending system, a respondent from Burdwan (West Bengal) says: "The advantages of the private agency are its ready availability to the clientele and its [moneylender's] personal knowledge of the borrowers." According to a respondent from Hazaribagh (Bihar) the private moneylenders are popular because "(i) they are easily approachable, (ii) borrowers have not to undergo any red-tapism, and (iii) they have not to spend anything for obtaining loans." The reply of a person with official experience in Punjab points out that "the main advantages of this agency are: (i) the confidential character of the dealings and (ii) the immediate availability of funds." From Sirohi (Rajasthan) comes the confirmation that the advantages are: "(i) the loan is available at any time, (ii) the borrower has direct contact with the lender and no formalities are involved, (iii) security is not required and there is, therefore, no fear of attachment of property, and (iv) no limitation on the size of loan." A respondent from Poona (Bombay) lists the following advantages: "(i) immediate availability, (ii) sometimes in case of a good crop a wise borrower can dictate terms, (iii) in 80 per cent of the cases the loans are used for the purposes asked for, as the moneylender knows personally the urgency and use of it, (iv) the borrower and the creditor know each other perfectly, and (v) this agency is not too technical." Several respondents see in the elasticity of his operations the main explanation of the survival and dominance of the moneylender's credit.

In the same connexion has to be emphasized a feature to which reference has already been made. Those who want loans and can even repay them are not always those who own lands or are in a position to sell or mortgage them. It emerges very prominently from the Survey that the professional moneylender is one of the very few creditors who lend largely on personal security as distinguished from the security of immovable property. Thus, the proportion of total debt that was secured against immovable property to the total debt owed was only 15 per cent for professional moneylenders, as against 64 per cent and 59 per cent for Government and co-operatives respectively. In certain areas, as we have seen, the agriculturist moneylender has the security of land more in mind than his professional counterpart.

The explanation for the moneylender's ability to dispense so largely with the security of land is to be found in the description we have given of his technique and of the conditions in which he employs it.

Rates of interest

7. But when it comes to the rate of interest, neither the moneylender, whether professional or agriculturist, nor his close associates, the landlord and (sometimes) the trader, are seen to exercise much restraint on themselves. Thus, the proportion to the total borrowings of cultivators from private credit agencies (other than commercial banks) of such of those borrowings as bear a rate of interest of 25 per cent or more is as high as 70 per cent in Orissa, 49 per cent in Tripura, 40 per cent in West Bengal and in Himachal Pradesh, 29 per cent in Uttar Pradesh and 27 per cent in Bihar. Nor are annual interest rates of 50 per cent or above infrequent in certain areas; borrowing at this high level of interest

accounted for as much as 64 per cent in Jhabua, 30 per cent in Tripura, 27 per cent in Malda, 13 per cent in Hazaribagh, 10 per cent in Koraput and 9 per cent in Nainital.

It follows that moneylending legislation has had little effect on what the cultivator is actually charged as interest by the moneylender. We have elsewhere alluded to the extent of breach of the maximum interest clause in moneylending enactments. The following data illustrate the point:

State	Maximum stipulated interest rate[1]	Amount borrowed from traders and commission agents, agriculturist moneylenders, professional moneylenders and landlords at rates higher than the stipulated maximum as percentage of the total borrowings from these agencies (excluding borrowings at unspecified rates)
	Per cent	Per cent
Assam	12½	14
Bihar	12	88
Bombay	12	19
Madhya Pradesh	18	67
Madras	5½[2]	86
Orissa	12	86
Punjab	12½	34
Uttar Pradesh	24	29
West Bengal	10	88
Hyderabad	9	83
Mysore	12	10
PEPSU	12½	65
Travancore-Cochin	12[3]	12

[1] Refers to simple interest on unsecured loans generally as the legal position stood in 1951.
[2] According to the Madras Agriculturists' Relief Act, 1938.
[3] Refers to secured loans.

It will be seen that the proportion of borrowings at rates higher than the stipulated maximum was around 85 per cent in West Bengal, Bihar, Madras, Orissa and Hyderabad and about 65 per cent in Madhya Pradesh and PEPSU.

Questionable practices

8. The Indian Central Banking Enquiry Committee listed the more important among various questionable practices connected with moneylending: "(*a*) demand for advance interest, (*b*) demand for a present for doing business, known as *girah kholai* (purse-opening), (*c*) taking of thumb impression on a blank paper with a view to inserting any arbitrary amount at a later date if the debtor becomes irregular in payment of interest, (*d*) general manipulation of the account to the disadvantage of the debtor, (*e*) insertion in written documents of sums considerably in excess of the actual money lent, and (*f*) taking of conditional sale deeds in order to provide against possible evasion of payment by the debtor."[4]

[4] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, p. 77.

The Agricultural Finance Sub-Committee sums up its view of the moneylender and his operations as follows: "While it is true that the moneylender is the most important constituent of the agricultural credit machinery of the country, it is not possible to justify many of his practices and the charges he makes for his services. Very often these charges are out of all proportion to the risk involved in the business and constitute an exploitation of the helplessness, ignorance and the necessity of the borrower. Nor is the agricultural economy of the country in a position to bear the strain of his extortion. The credit dispensed by him instead of contributing to the agricultural prosperity of the country serves as a serious drag on it."[1]

Respondents' views

9. Has the moneylender turned over a new leaf, or do his questionable practices remain as numerous as ever? What is the position in this regard in different parts of India? No statistical reply is possible; but we may turn briefly to some of the replies to our Questionnaire, and present a cross-section of these in the form of summary or quotation.

"The law is circumvented by taking a promissory note for a sum greater than that actually advanced," says a respondent from Jaipur; "some moneylenders evade the law by writing a deed of a higher order than the amount paid" says a co-operative banker of Ahmedabad; according to an agricultural officer of Bihar, "In order to safeguard the higher rate of interest settled privately with the borrower, moneylenders get the bonds executed for a higher amount by about 25 per cent to 50 per cent than the actual amount paid"; while according to an officer of the Co-operative Department of Orissa, "the Moneylenders' Act is defied by the creditors usually by getting hand-notes executed for 50 to 100 per cent more than they actually loan out."

A respondent from Poona says, "The practices outside the law are: (1) making agreements of the sale of land or any other property for the money advanced on loan, (2) executing promissory notes without interest (interest at 24 per cent being cut at the source) and (3) execution of deposit receipts in the place of promissory notes." The general manager of a commercial bank in Bihar observes, "The moneylenders defeat the provisions though acting within the Act and also evade the Act. This is illustrated as below: documents for advances are being actually registered where the rate of interest mentioned is much above the maximum allowable under the Act—confident as these moneylenders are that these debtors will have little guts to proceed against the *mahajan* in a court of law to seek justice."

A revenue officer of Himachal Pradesh mentions certain well-established classes of moneylenders' loans which have an illegal rate of interest as their common feature:

"(i) *Koot*—On the advance of Rs 100, the *sahukar* gets interest at Rs 12 to Rs 18 per annum on Rs 99. And 8 seers wheat in *rabi* and 12 seers paddy in *kharif* are received by the *sahukar* on Re 1 . . .

(ii) *Bheli Badha*—On Rs 95, cash interest is charged at 12 per cent and on the remaining Rs 5, 5 *bhelis* (10 seers) *gur* in *kharif* and 10 seers of wheat in *rabi* are charged as *badha*.

(iii) *Pesa Rupya*—Interest charged is 18¾ per cent per annum.

[1] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 59.

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(iv) *Sawai*—25 per cent of the credit is charged as interest under this system."

A non-official respondent from Rajasthan refers to illegal deductions besides high interest. He says: "The rates of interest charged by the moneylenders are exorbitant, viz., 12 per cent to 24 per cent. In some cases, it is one pice or two pice per rupee per month. The *banias* deduct a charge called *kadha* from the amount of loan at a rate of one anna per rupee over and above the rate of interest."

Says a respondent from Bihar: "The village *mahajan* even gets the out and out conveyance of the properties or portions of the same executed in his favour, sometimes completing the registration of the same and sometimes avoiding it by way of security for the advances with moral understanding for re-conveyance of the property, if the dues are paid back according to the terms verbally agreed upon. These *mahajans*, unless they are the superior landlords themselves, keep close touch with the latter and manage to manipulate transfers through *hukum namas* valid under the tenancy laws for the Chota-Nagpur Division. This procedure is being followed particularly after the passing of the Bihar Moneylenders' Act, 1939."

Commenting on the practice of demanding conditional sale deeds, a divisional officer of Tripura states: "Instead of taking a mortgage deed while lending money to agriculturists he [the moneylender] compels the debtor to make a deed of sale to the creditor and the creditor draws a deed of contract to hand over the land back, if the consideration money is returned within a specified period. The whole crop of the land thus goes to the moneylender as interest, which, if calculated in money, is much higher than that provided for in the law."

According to an agricultural officer of West Bengal, "The business of private moneylending is being done largely on personal credit and usury is now practised under cover. . . . Only about 10 per cent of the moneylenders are licensed. There is also the system of obtaining and repaying loans in kind. The interest charged on these loans varies from 30 to 60 per cent."

Some district officers of Orissa state that the usual methods of evasion of the law are: (i) executing documents for much larger amounts than actually advanced, (ii) not giving receipts for gold or silver ornaments pledged, and (iii) back-dating the promissory notes.

Commenting on the fact that several moneylenders failed to get the required licence, an officer of the Co-operative Department of Bombay remarks: "The Moneylenders' Act is evaded in the following ways:

(i) Most of the moneylenders in rural areas do not obtain licences;

(ii) Licensed moneylenders show only some transactions on record;

(iii) Interest rates beyond the stipulated rates are charged;

(iv) In certain cases, forward sale of the produce of the borrowers is fixed."

An agricultural officer of the Bombay State remarks: "There are laws and provisions which are made to regulate moneylending business. Due to these stringent laws, the money market has become more tight. The moneylender keeps the account as per rates admissible and takes the extra interest unofficially and hence, it is very difficult to detect such cases. It may be stated here that imposing restrictions on moneylending business

without adequate provision from other sources will lead to the abuse of the Act, as the needy persons do not hesitate to take loans even at exorbitant rates of interest higher than the specified rate. A well-organized and quick-acting machinery is what is needed by the cultivator at this juncture."

A district collector, also of the Bombay State, observes of the cultivator that, having no resources of his own, he "approaches the landlord for seed, manure, etc., and accepts the landlord's terms and executes any agreement like *chukar nama*, with the result that he assumes the status of a servant as against that of a tenant."

III. FINANCIAL SUPERSTRUCTURE OF PRIVATE CREDIT

Moneylender and indigenous banker

10. We have so far dealt with the moneylender and a few others such as the trader and the landlord, all of whom lend direct to the cultivator. To the very small extent that the indigenous banker (defined, for the purposes of the Survey, as a moneylender who accepts deposits and deals in *hundis*) may also lend direct to the agriculturist, the latter makes no distinction between him and other moneylenders, especially urban moneylenders. Such loans from the indigenous banker, therefore, are on the 'demand' side of the Survey reflected, by and large, in the borrowings reported by the cultivators as from professional moneylenders. From the point of view of the study of the 'supply' agencies, however, it would be both more correct and more convenient to regard indigenous bankers (along with commercial banks to which a separate chapter is devoted) as part of the financial superstructure of private credit, of which the primary base consists largely of the professional and agriculturist moneylender. That this would be justified is borne out by the following observations by the Indian Central Banking Enquiry Committee: "It is not ordinarily practicable for the indigenous banker to establish direct business relations with the ryot. He finances agriculture through local *sahukars* or moneylenders. . . . In Bihar and Orissa, the indigenous banker lends to grain merchants and *goladars* and advances directly to zamindars and ryots who have an easy access to towns. In all Provinces, he also indirectly finances agriculture by financing internal trade. . . . While his relations to agriculture are generally . . . indirect, he has always maintained a close personal touch with the trader and the small industrialist. . . . but it may be pointed out here that in connexion with such financing operations he does a good deal of general banking business which is done by joint-stock banks, such as buying and selling remittance, discounting *hundis*, receiving deposits, and advancing loans against stock in trade." The Committee go on to add: "The majority of indigenous bankers combine banking with some form of trade, and the capital employed in banking is not distinguished from that employed in trade. The Punjab Committee observe, and this is confirmed by other committees as well, that their banking business has considerably declined owing to the competition of the joint-stock and co-operative banks and that they have been tempted to make up for their lost ground in banking by developing trading activities. Other reasons given for the decline are the loss of agency business in *mandis* by the indigenous bankers, owing to the establishment of branches of exporting firms."[1]

[1] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, p. 99.

11. The total number of village moneylenders interviewed for the purposes of the Survey was 622 all over India. Of these, 174, or about 28 per cent, said that their financial operations made it necessary that they themselves should borrow. Further, out of these 174, as many as 78 per cent mentioned 'other moneylenders', some 6 per cent mentioned indigenous bankers and 4 per cent referred to commercial banks, as sources available to them for financing their transactions. The 'other moneylenders', if only because of the size of resources requisite in a lender who finances another lender, may be presumed to be the bigger moneylenders in the towns.

Sources of funds

Of the 2,854 urban moneylenders interviewed all over India, some 966, or about 34 per cent, said that they themselves had to borrow in order to finance their transactions. Out of these, some 84 urban moneylenders, or 9 per cent, mentioned indigenous bankers as the available source, while as many as 673, or 70 per cent, said they could borrow from 'other moneylenders'; these others, to be an effective source, can only be the largest among the urban moneylenders. Another figure remains to be mentioned. Out of the 966 urban moneylenders who stated that they themselves had to be financed, some 320, or 33 per cent, referred to commercial banks as their resort for borrowing. Thus, as we proceed from village to town, the commercial bank begins to assume importance, in this case in the financing of the moneylender. Indeed, as we shall see later, there are certain districts in which the commercial banks have taken a dominant position over even the 'other moneylenders' in the matter of financing the private financiers of agriculture.

The opinion of the Punjab Provincial Banking Enquiry Committee as well as of a few other Provincial Committees that the importance of indigenous bankers was declining owing to competition from the joint-stock banks is generally supported by the Survey data. The commercial banks, as a whole, have assumed more importance than any other single agency for the financing of the trader in agricultural commodities. The following particulars, elicited from traders, will be of interest:

Total No. of traders interviewed 5,047
Total No. of traders who said that they borrowed in the course of business.. 3,246

Agency	Number of traders who said that they had borrowed from this agency: Number	Proportion to the total number (3,246) who borrowed (Per cent)
Commercial banks	1,567	48
Indigenous bankers	214	7
Moneylenders	1,447	45
Manufacturers and processing concerns	76	2
Wholesalers and export firms	582	18
By drawing *hundis*	268	8
Others	373	12

Besides the importance of the commercial bank in this context, a point to notice is the significance of wholesalers and export firms as financiers of traders lower down. In fact, they are the most important credit agency for trade in some of the districts:

District	Number of traders who borrowed from this agency as percentage of the total number of traders who could not meet the demand from their own resources and reported borrowings			
	Commercial banks	bankers	Moneylenders	Wholesalers and export firms
Jalpaiguri			—	83
Kamrup ..	4		6	73
Sirmoor ..	27		30	70
Midnapore	—		21	71
Tripura ..	3		9	56
Shahjahanpur	38		41	55

We have seen that, as part of the superstructure of private credit for trade in commodities, commercial banks have assumed a role which is now far ahead of that of indigenous bankers, though possibly not particularly in advance of some of the bigger urban moneylenders in different parts of the country, if all of them are considered together. It may be noted, in concluding this section, that in certain districts, including some of the relatively commercialized districts, commercial banks are the major credit agency for the urban moneylenders themselves:

District	Proportion of urban moneylenders who said that they could borrow from this agency to the total number who borrowed	
	Commercial banks	Other moneylenders
	Per cent	Per cent
Jalpaiguri .	100	—
Bangalore .	100	18
West Khandesh	100	20
Quilon .. .	88	—
Hassan .. .	80	60
Malabar .. .	78	—
Kolhapur .	76	55
Poona .. .	71	39
Coimbatore .	70	10
Shahjahanpur .	65	61

CHAPTER 15

RECORD OF COMMERCIAL BANKS

If commercial banks have already come in for mention in the last chapter, it is because they occupy a significant place in the financial superstructure that is available to the village moneylender, the urban moneylender, the indigenous banker and the trader in agricultural produce. We have yet to consider the commercial banks in relation to the cultivator, the co-operatives and, as a specific type, the wholesale trader in agricultural commodities. It is this part of the record that we shall examine in the present chapter.

I. THE CULTIVATOR AND COMMERCIAL BANKS

The cultivator and commercial banks

Summing up the role of commercial banks in agricultural credit, the Indian Central Banking Enquiry Committee said in 1931:

"We have already remarked that the joint-stock banks play little direct part, and the Imperial Bank much less, in the supply of credit to the agriculturists. These banks do not look upon agricultural finance as part of their general business. Banks, however, do finance agriculture indirectly by financing merchants who give advances to the small village dealers; and some banks lend direct on the pledge of produce and valuables and on mortgage. This indirect financing by intermediaries is, however, costly, as a price not always reasonable has to be paid for it. A few banks lend to landholders and to the more substantial cultivators.

"The Bombay Committee have reported that the Imperial Bank of India has recently begun in the Bombay Presidency to finance big landlords on personal security with sureties, or on the security of produce or of gold. The Managing Governor of the Bank has stated in his evidence that the policy of the Bank since its inauguration has been to encourage advances at reasonable interest against personal security with at least two good names supported, if possible, by the hypothecation of crops and also against the pledge of agricultural produce and gold. This policy, he observed, has not been limited to big parties and has been extended to all, the only condition being that the borrower is a reliable party and the security suitable in the opinion of the Bank. It is reported that considerable reluctance to pledge stocks was experienced due to a feeling that such a course entailed loss of credit and standing by the borrower; this feeling is, however, being overcome and is less in evidence each year."[1]

[1] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, p. 191.

Indication is forthcoming from certain data—which however we are unable to publish since the Imperial Bank has refused us permission to do so—that at the end of 1950-1, after twenty years of operation of the 'policy' to which so pointed an attention had been drawn by the Managing Governor (as he was then called) of that institution, the amounts advanced by the Imperial Bank for 'agricultural production' constituted a wholly insignificant proportion of its total advances. We may, however, refer to the data for all reporting scheduled banks (including the Imperial Bank) available in the quarterly Survey of Bank Advances of the Department of Research and Statistics of the Reserve Bank of India. These reveal that only 2.7 per cent of the total advances of scheduled banks was for 'agricultural production' as on 30 June 1951. The corresponding percentage for all reporting non-scheduled banks was about 5.5 per cent on 30 June 1951. If all reporting banks (Imperial Bank, other scheduled banks and non-scheduled banks) are taken together, the actual amounts outstanding on this account during the course of 1951 were Rs 14.9 crores (March), Rs 18.3 crores (June), Rs 19.9 crores (September) and Rs 15.5 crores (December). Here again, the figure for the quarter ended 30 June 1951 was roughly 3 per cent of the total advances of all the reporting commercial banks in India. The following figures may be seen:

(Amounts in crores of Rs)

Outstandings as on 30 June 1951	Non-scheduled banks	Scheduled banks (including the Imperial Bank of India)	All reporting commercial banks
1. Total advances for all purposes ..	43.3	584.3	627.6
2. Advances for agricultural production	2.4	15.9	18.3
3. 2 as percentage of 1	5.5	2.7	2.9

The general picture, then, is that agricultural production gets less than four rupees out of every hundred advanced by commercial banks. The data of the Rural Credit Survey indicate that the credit obtained from commercial banks by the cultivator was less than 1 per cent of his total borrowings and even so was confined to a few districts. In 44 out of the 75 districts selected for the Survey, not a single pie was reported as having been borrowed by cultivators from a commercial bank. In 15 others, less than 1 per cent was so borrowed. Thus, in practically 4 out of every 5 districts, commercial bank credit for agricultural production was non-existent or negligible. In 13 districts it ranged from 1 per cent to 5 per cent of total borrowings. In only 3 districts—Coimbatore, West Khandesh and Quilon—did it exceed 5 per cent. It will be

seen from the figures given below for these 3 districts that much the larger part of the credit thus made available went to the upper deciles of cultivators.

District	Group of cultivator	Average amount borrowed from commercial banks (Rs per family)	Amount borrowed from commercial banks as percentage of the borrowings from all agencies by this group of cultivators	Amount borrowed from commercial banks by this group of cultivators as percentage of the borrowings from commercial banks by all groups of cultivators
	Big	236	13.7	56.9
Coimbatore ..	Large	120	11.4	84.5
	Medium ..	11	3.2	9.5
	Small ..	9	5.9	6.0
	All deciles ..	44	8.8	100.0
	Big	38	4.7	21.3
Quilon	Large.. ..	31	5.5	51.6
	Medium	17	9.0	36.8
	Small ..	7	6.5	11.6
	All deciles ..	18	6.6	100.0
	Big	128	12.5	55.0
West Khandesh..	Large.. ..	71	12.0	87.9
	Medium ..	5	3.1	8.3
	Small ..	3	5.0	3.8
	All deciles .	25	9.3	100.0

II. THE CO-OPERATIVES AND COMMERCIAL BANKS

Co-operatives and commercial banks

2. In a total working capital of Rs 36.72 crores of all the state co-operative banks in India as on 30 June 1952 loans from commercial banks amounted to Rs 2.51 crores or less than 7 per cent of the total. Small as it is, the figure is misleadingly large; for, out of the Rs 2.51 crores as much as Rs 1.97 crores represented a loan which, on State guarantee and in effect as agent of Government, the Madras State Co-operative Bank obtained from the Imperial Bank for purposes largely connected with food control, i.e., the procurement etc., of foodgrains. The balance of Rs 0.54 crore was the total borrowing from commercial banks reported by 4 other state co-operative banks, viz., West Bengal, Madhya Pradesh, Punjab and Hyderabad. Even more negligible (all-India average: 1.7 per cent) is what district co-operative banks and banking unions manage to get by way of credit from commercial banks. Some of the larger percentages for individual States (as on 30 June 1952) were: 5.51 per cent for Punjab, 3.84 per cent for Hyderabad, 2.25 per cent for Rajasthan and 2.15 per cent for Madras. The percentage was less than 1 for Bihar, Bombay, Madhya Pradesh, Ajmer and Himachal Pradesh.

III. THE WHOLESALE TRADE AND COMMERCIAL BANKS

Wholesale trade and commercial banks

3. The wholesale trade we are concerned with is that in agricultural commodities. An indication of the place occupied by it in the total picture of commercial bank finance may be had from the following table compiled from data collected by the Department of Research and Statistics of the Reserve Bank of India (quarterly Survey of Bank Advances) :

(Amounts in crores of Rs)

Outstandings as on 30 June 1951	Non-scheduled banks	Scheduled banks (including the Imperial Bank of India)	All reporting commercial banks
1. Total advances by commercial banks ..	43.3	584.3	627.6
2. Advances for wholesale trade in agricultural commodities	4.9	100.8	105.7
3. 2 as percentage of 1	11.4	17.3	16.8

While, thus, the advances of commercial banks to wholesale trade in agricultural commodities amounted to about 17 per cent of their total advances on 30 June 1951 (the corresponding percentages for 30 September and 31 December of the same year were 11.7 per cent and 18.2 per cent respectively), a large portion of such credit was in respect of agricultural commodities of major commercial importance such as cotton, jute, oilseeds and sugar, more especially cotton:

Advances for wholesale trade in	Amount advanced for wholesale trade in this commodity as percentage of the total advances for wholesale trade in all agricultural commodities (outstanding as on 31 March 1952)		
	Non-scheduled banks	Scheduled banks (including the Imperial Bank of India)	All reporting commercial banks
	Per cent	Per cent	Per cent
Cotton	13.5	49.6	48.5
Jute	2.7	9.5	9.3
Oilseeds	8.1	13.8	13.6
Sugar	5.4	2.1	2.2
			73.6
Other agricultural commodities ..	70.3	25.0	26.4
Total	100.0	100.0	100.0

That foodgrains, included in the miscellaneous last group, came in for relatively minor finance from commerical banks is partly accounted for by the fact that in March 1952 the distribution of food was still to a large extent in the hands of Government. It has to be noted that it is this last group of 'other agricultural commodities' which is the most important for non-scheduled banks, constituting as it does about 70 per cent of their total advances to wholesale trade in agricultural commodities. What is most noteworthy, however, is that nearly three-fourths of the total advances of all commercial banks to wholesale trade in agricultural commodities were in respect of the three or four cash crops which are of major significance to the commercial community.

CHAPTER 16

RURAL CREDIT AND THE SUPERSTRUCTURE OF BANKING

Banking superstructure

FROM the private credit agents such as moneylender, trader and indigenous banker and from the commercial bank which, besides being one such agent itself, is also part of the financial superstructure of the other agencies of private credit, we may turn to the larger monetary and banking superstructure of the country and consider the bearing of its operations on the working of the rural credit system in different contexts, regional and other. Such an examination—confined to the disentangling of the main strands of an obviously complicated relationship—will be convenient at this stage, even though it implies the anticipation to some extent of matters later dealt with in detail in the chapters on the co-operative agency, the Reserve Bank, the Imperial Bank and other State-associated banks.

Cultivator's need for credit

2. The cultivator's need for credit arises in a number of different ways. He may, in the course of business, want short-term funds for current production; he may require a medium-term loan for purchase of livestock; or he may have to borrow long-term for digging a well or improving his land. The same gradation may arise in connexion with family expenditure: there are current consumption needs; there may be occasions such as illness calling for somewhat larger expenditure; and a special event like marriage may mean even larger expenditure and a longer period of repayment. The need for production finance is related to the structure of farm business. We have seen in Volume I the intimate connexion between the economy of the district and the pattern of borrowings for current expenditure on farm business. Not as pervasive a relationship between regional crop economy and borrowing is present in the context of medium-term finance for production; but even here, loans for machinery and implements and loans for 'irrigation' purposes (well-digging etc.), which often go together, usually prevail in areas in which commercial crops are a predominant feature. Borrowing for long-term production is determined largely by the physical conditions of the tract and the possibilities of development presented by them. Loans of this category are particularly conspicuous in areas where there has already been a fair amount of capital investment in agricultural development and where there is further an appreciable scope for such development. Usually these are areas in which the more important commercial crops occupy a significant place in the economy.

Borrowing for family expenditure has no such clear relationship with the physical characteristics and crop pattern of the region or the district. Its obvious connexion is with the level and composition of family expenditure. The level of expenditure is no doubt related to the level of income and, therefore, to the economy of the tract; but this

relationship is broad rather than specific: it does not arise from those detailed features which are the distinguishing aspects of the economy. Certain relevant observations may nevertheless be made with respect to finance for family expenditure. Where it is related to current consumption, the need to borrow may sometimes arise on account of a sudden or chronic failure of the season. More usually, the need for consumption credit is the normal feature of an established annual cycle to which some reference has been made in a previous chapter. We may recall that, in the context of the slender resources of a precariously balanced living, the cycle works in the following manner. The cultivator disposes of the bulk of his produce after the harvest; not many months thereafter he finds it necessary to borrow for purposes of consumption; he thus contracts debts which have to be paid off immediately after the next harvest; this repayment makes a large drain on his resources and he has to borrow soon afterwards. This cycle is clearly seen, for example, in the operation of grain loans in various districts, when harvest, repayment and fresh borrowing follow one another with unbroken regularity. Where the need to borrow arises out of failure of crops, equally clear illustration is provided by the data relating to cash expenses and cash receipts. Even a partial failure may mean a relatively grave situation in regard to the normal cash expenditure of the ensuing year. In some districts, where 'crop' agriculture (as distinguished from mixed farming) does not yield significant returns, this condition may be permanent. In relation to long-term borrowing for family purposes, the occasions which figure most prominently in all regions are marriages and similar ceremonies on which disproportionate amounts are usually spent almost as a matter of conventional necessity.

Resources of the cultivator

3. Looking at the other side, i.e., the resources of the cultivator, it is clear that the cash realized from sale of crops is ordinarily available only at certain times during the year, whereas the expenditure is more evenly spread over the year. Where the resources happen to consist in milk and other livestock products, the receipts are more regular. As resulting in cash receipts, wages and remittances are also important; their relative significance, however, varies from region to region. The Survey data on cash receipts and expenses show large variations in the volume of cash transactions of the average family and in the proportions which cash utilization bears to total transactions. Where farm produce is the chief item of owned resources and little is sold for cash or paid for in cash, the economy is also one in which cash expenses are very low compared with total expenses and cash sales of crop disproportionately small compared with the total value of the produce. This may be called a 'low monetized' or 'subsistence' economy. On the other hand, there are economies where the produce of the farm is not in large part confined to food and other crops required for the sustenance of the cultivator and his family. In such cases the bulk of the produce is sold for cash by the cultivator; he buys from the proceeds the commodities needed for family consumption; and out of them he also finds the outlay needed for current farm business. In such an economy, cash expenses on the farm are a substantial part of the total expenditure incurred on it, and cash proceeds from the sale of crops etc., account for much the larger portion of the gross value of the produce. Among intermediate types, special mention may be made of the kind of economy in which the total value of gross produce of the farm is not large, and at the same time crop agriculture (as distinguished from mixed farming) is less important than is usually the case. In such an instance, the expenses would have to be borne largely

in cash, since the produce of the farm would not suffice to meet the actual needs to any substantial extent and the proportion of cash expenses to total expenses would be high. Simultaneously, the volume of produce sold for cash would be small and the proportion of cash receipts to gross value of crop low, so that the required cash would have to be obtained to a large extent otherwise than through sale of crops, i.e., by means of livestock business or through wages, remittances, carting, etc. Thus, with reference to farming business of the same size but in different economies, there would be considerable variations in the total expenses in cash that cultivators would have to incur and the total resources in cash that they would receive. Within the farm business, as indicated by the data, cash receipts would fall short of cash requirements in many regions and among many classes of cultivators; and, at particular seasons, the shortfall would be common to almost all regions and to most groups of cultivators. In particular, in economies where there is a large element of self-sufficiency, the availability of cash receipts from farm business would be specially low. In such tracts, a large proportion of cash receipts would generally be derived from external employment, remittances, etc. A further point to note about these economies is the disparity they present between the sizes of certain types of expenditure and those of available cash receipts. In relation to the low level of cash receipts which is a characteristic of the subsistence economy throughout the year, an item of expenditure such as purchase of livestock, more so capital investment on land improvement etc., and most of all the conventional extravagance on marriages and other ceremonies, all these will be obligations of an onerous character if they have to be fulfilled in terms of cash. Even after taking into account the variations in the size of such expenditure from district to district and even on the assumption that in the more self-sufficient economies the level of expenditure in cash on such items would be low, the amount of expenditure to be incurred in cash on these occasions would constitute a much higher proportion of the total availability of cash resources during the year than would the corresponding items of cash expenditure in the more monetized economies in relation to the cash receipts pertaining to those economies, though both expenditure and receipts would be of a much larger scale in the latter instance.

How demands for credit are met

4. Having made these observations on the demand for cash loans by the cultivator, we may next examine how these demands are in practice usually met. We may first consider the private credit agencies. Here again it would depend on the type of economy of the tract whether these agencies are large or small in number and their resources ample or scanty in size. It has already been noticed that the private professional moneylender usually combines some other business with moneylending. He may be a part-trader, a part-agriculturist, a part-shopkeeper, etc. The phenomenon of combination of activities arises out of the limited scope for business in particular localities; the restricted turnover renders it unprofitable to practise rigid specialization; and coupled with this consideration is the fact that certain types of activities, especially moneylending and trading, are in their nature complementary. The types of available businesses and the number of profitable units would be closely connected with the economy of the region. In a farming economy in which the produce was largely marketed and the process of cultivation required large outlays on purchase of materials, the agricultural sector of activity would by itself afford considerable scope for the business of trading and the business of moneylending. In practice, the business units might be such as combine moneylending with trading. There would

arise out of the trading activity a constant turnover of funds; this would enable the business units to be put in possession of loanable funds at appropriate times; and these funds would be utilized for the complementary activity of moneylending. But at this stage arises the extremely important consideration that the trading-cum-moneylending activity would also be greatly dependent on the availability of a credit mechanism of the banking and remittance type, and therefore be intimately associated, in regard to its own development, with the extension of that mechanism. Where these factors coexist, there is also another element usually present in the situation. In such areas the resources of those in rural business of various types are also likely to be considerable, and part of these resources would tend to be employed in moneylending. This is particularly true of the agricultural business itself in areas with intensive cultivation of commercial crops; here the money incomes of the larger farmers would be substantial, and we have already seen that the agriculturist moneylender plays a prominent part in rural credit.

On the other hand, in areas where there is little by way of sale of crops or cash outlay on farming, rural trading and other activity would be confined to providing for consumption needs; even these needs, in a subsistence economy, would tend to be largely met, internally, in kind; so that total trading would be small and, at any point of time, the cash resources of both the cultivators and the non-cultivators in the area would be limited. Even the larger farmers would not possess large cash resources at any time in such economies. At the same time, as pointed out above, the need for borrowing, especially in the context of development, the maintenance of equipment such as livestock, and the incurring on occasion of relatively large family expenditure, would all be factors which combine to keep up the demand for loanable funds at a level which is high in relation to the internal resources of the community. In such an economy, through lack of an affluent class with adequate resources, such as trader or large cultivator, the number of persons who could engage in moneylending would be small and the resources of those actually so engaged would be limited. Further, because of the smallness of business turnover and the lack of banking and remittance facilities, liquidity of funds would be of extreme importance for moneylending as for other types of business; and there would be need for maintaining in the form of cash a relatively high proportion of the resources used in these activities. All this would mean that much greater difficulty would be experienced by the people of this tract in meeting their periodical or occasional demands for cash expenditure than would be the case in the commercialized and monetized areas already considered. The number of those engaged in lending being small, alternative sources of borrowing would be few and competition amongst credit agencies almost non-existent. The small size of business turnover, the high proportion of cash to be maintained and the obstacles in the way of obtaining ready cash against other resources would make not only for limited availability of credit, but for very high rates of interest at which alone the credit would be made available. *Per contra*, in the monetized and commercialized economy, there would be numerous alternative sources of credit, the circulation of funds would be large and free, and, if particular directions promised higher profits, the diversion of funds to those directions would be relatively easy. All this would make for a more ready availability of credit and a generally low level of the ruling rates of interest. These complexes would be related not only to monetization and commercialization but also perhaps to such factors as density of population.

5. The main components of the modern banking structure are the commercial banks. These banks—scheduled and non-scheduled—have specialized in certain types of business; their structure and methods of business are such as to tend to make them deal with only certain phases of economic activity. In agriculture, their interest lies not so much in production as in marketing. Therefore, in rural areas in which the marketing of agricultural produce is of small importance, there is little scope for the activities of commercial banks which seek rural locations where there is large concentration of sale of agricultural produce. Commercial banks are helped in their activities by facilities afforded by the monetary and banking superstructure in the direction, for example, of remittance of money in cash and by cheque. Further, they are enabled to economize in the use of resources by being provided with facilities for ready short-term investment and ready short-term borrowing. The key instrument of the monetary authority in the affording of these facilities is the branch of the Imperial Bank. Where this does not exist, part of the work is done by treasuries managed by the revenue authorities. The treasury, however, is of limited use in the provision of remittance facilities and, of course, affords no banking service. The Imperial Bank, itself a commercial bank in the main, understandably follows more or less the same lines as other commercial banks. Barring the exceptional instances where the Imperial Bank, by agreement with the Reserve Bank or Government, has opened branches at places to which it would not have ordinarily extended, or where the State Banks of the old princely States opened branches at similar places in conformity with the policies of the ruling authority, there is a concentration of the relevant facilities in the more commercialized and monetized agricultural regions. This is so in whatever terms the facilities are conceived: whether of private agencies ready to lend, or of the resources they possess, or of their ability either to borrow resources or to convert resources from one form into another, or of the services which the superstructure can render by way of banking or of remittance. In the commercialized and monetized regions, therefore, not only is the total service more effective, but its cost is less. The more commercialized the agricultural economy of the area, the more conspicuous the concentration of these facilities; this indeed may be said to be an inevitable trend if we recall that the facilities have, by and large, been left to be provided by profit-making institutions and that the features in question are those most favourable for profit-making. As for the effect of this important trend, this has obviously been cumulative; on the one hand there has been brought about an increase in resources and services and a decrease in costs of service in particular areas favourably situated in this regard; and, on the other hand, there is retarded development, limited resources, restricted facilities and high cost of service in areas where the opposite situation prevails.

Role of commercial banks

6. A word may be said in this context regarding the development of co-operative agencies. These agencies are undoubtedly more specifically related to the financing of agricultural production than are commercial banks. Therefore, theoretically, their development can be envisaged as assuming a pattern that need not necessarily fit into the picture we have considered. But even finance for production, as we have pointed out, would be more largely required in the commercialized or monetized economies than in those of the subsistence type. The turnover of productive finance, per unit or per member, would be low in the less monetized

Co-operative agencies

economies; and in corresponding degree would be restricted the scope for economic operation, and development of credit institutions in general, not excluding those which are co-operative in character. Moreover, in the less monetized areas, co-operative societies and co-operative financing agencies would suffer from lack of remittance and other facilities which the banking superstructure alone could afford. In the absence, therefore, of a positive policy and deliberate well-directed effort, even the extension of co-operative credit would tend to follow the pattern already described. The result would be that a continuous neglect of backward tracts would go hand in hand with the further development of areas which had already benefited.

Credit superstructure for backward tracts

7. In planning the development of backward tracts, the first problem to consider would thus be the establishment of an appropriate superstructure of credit. In particular, if there is to be investment of capital for planned development, a beginning has to be made with the importation of the necessary resources from outside these areas. The imported resources have then to be distributed to the scattered farm business units for purposes of investment: at a later stage, the credit requirements of these units, both for business and for family expenditure, have to be continuously financed. In the absence of a suitable credit structure, development would be rendered impossible in these particular tracts by paucity of resources and high rates of interest. Even if the question were confined to the development of co-operative credit and marketing, an inescapable requirement would be the establishment of a superstructure which supplies the needed cash along with an adequacy of loanable funds.

Relevant Survey data

8. If the foregoing analysis has some claim to validity, the data of the Survey should point to there in fact being an association between the various factors mentioned by us. In relation to different tracts, these factors are the commercialization and monetization of the economy, the availability of private lending agencies (especially at the village level), the resources of these agencies, the rates of interest they charge, the extent of development of commercial banking, the distribution of the branches of the Imperial Bank, and the degree of development of co-operative financing agencies.

For a consideration of the Survey data from the point of view of this analysis, in order to ascertain the extent to which they confirm it or throw further light on it, it will be necessary, as a preliminary step, to classify the selected districts in two different ways: (1) according to the broad character of their economy and (2) according to the level of the range of interest rates charged by private credit agencies.

It may be recalled that, in the Survey Report, the 75 districts have been divided into 13 regions on the basis of certain features shared by each region. These regions may in turn be divided into three broad categories; the 'subsistence' regions might be placed in category A, the 'monetized' (but not particularly commercialized) regions in category B, and the 'commercialized and monetized' regions in category C. (It would, of course, have to be remembered that this classification is necessarily a very broad one and that a certain amount of over-simplification is inherent in the designations

given to the three categories.) The regions and districts in each category would then be as follows:

CATEGORY A (SUBSISTENCE)

Region 2	*Region* 3	*Region* 7	*Region* 8
Malda	Ballia	Jhabua	Sambalpur
Burdwan	Deoria	Shivpuri	Puri
Midnapore	Jaunpur	Shajapur	Koraput
Bhagalpur	Sultanpur	Bhilsa	Bilaspur
Monghyr	Sitapur	Raisen	Drug
Hazaribagh		Satna	Chanda
Palamau		Rewa	
Mirzapur		Sagar	

CATEGORY B (MONETIZED)

Region 1	*Region* 4	*Region* 5	*Region* 6	*Region* 12
Lakhimpur	Kanpur	Sirmoor	Churu	Nizamabad
Cachar	Hamirpur	Hoshiarpur	Barmer	West Godavari
Kamrup	Shahjahanpur	Jullundur	Sirohi	Chingleput
Tripura	Agra	Hissar	Jaipur	Ramanathapuram
Jalpaiguri	Aligarh	Bhatinda	Sawai Madhopur	
	Nainital	Mohindergarh	Chittorgarh	
	Meerut			

CATEGORY C (COMMERCIALIZED AND MONETIZED)

Region 9	*Region* 10	*Region* 11	*Region* 13
Nagpur	Poona	Hassan	Ratnagiri
Akola	Kolhapur	Bangalore	Malabar
Sorath	Bijapur	Coimbatore	Quilon
Ahmedabad	Osmanabad	Cuddapah	
Broach	Mahbubnagar		
West Khandesh	Kurnool		
Parbhani			

The other broad classification has to be related to the range of interest rates charged by private credit agencies. A convenient index for this purpose would, in respect of each selected district, be the proportion which the volume of borrowings at 18 per cent or more bears to the total volume of borrowings (the borrowings in either case being from the principal private credit agencies). The 75 selected districts might be arranged

in the descending order of magnitude of these proportions and then divided into 5 equal groups of 15 each as follows:

INTEREST-RATE DISTRICT-GROUPS

Where the level of interest rate was		Number of districts in the group	Proportion of borrowings[1] at rates of 18 per cent or more to the total borrowings from the principal private credit agencies Per cent
Group I	Very High	15	93.7
Group II	High	15	77.0
Group III	Medium	15	54.3
Group IV	Low	15	23.4
Group V	Very Low	15	3.9

The detailed composition of the 5 groups with reference to categories and regions is given below (the numbers within brackets indicating the region to which the district belongs):

Category A (*Subsistence*)	*Category B* (*Monetized*)	*Category C* (*Commercialized and monetized*)
	GROUP I (VERY HIGH)	
Palamau (2)	Hamirpur (4)	
Jaunpur (3)	Mohindergarh (5)	Nil
Shivpuri (7)	Agra (4)	
Malda (2)	Sawai Madhopur (6)	
Drug (8)	Sirohi (6)	
Jhabua (7)		
Shajapur (7)		
Bilaspur (8)		
Deoria (3)		
Hazaribagh (2)		
	GROUP II (HIGH)	
Monghyr (2)	Meerut (4)	Parbhani (9)
Puri (8)	Aligarh (4)	Osmanabad (10)
Raisen (7)	Kanpur (4)	
Chanda (8)	Chittorgarh (6)	
Bhagalpur (2)		
Sultanpur (3)		
Sambalpur (8)		
Midnapore (2)		
Ballia (3)		

[1] Excluding borrowings at 'unspecified' rates of interest.

Category A (*Subsistence*)	*Category B* (*Monetized*)	*Category C* (*Commercialized and monetized*)
	GROUP III (MEDIUM)	
Bhilsa (7)	Shahjahanpur (4)	Mahbubnagar (10)
Koraput (8)	Tripura (1)	Ratnagiri (13)
Rewa (7)	Hissar (5)	Akola (9)
Sitapur (3)	Sirmoor (5)	
Sagar (7)	Bhatinda (5)	
Satna (7)		
Burdwan (2)		
	GROUP IV (LOW)	
Mirzapur (2)	Nainital (4)	West Khandesh (9)
	Ramanathapuram (12)	Nagpur (9)
	Jullundur (5)	Sorath (9)
	Jalpaiguri (1)	Bijapur (10)
	Barmer (6)	Kolhapur (10)
	Nizamabad (12)	Hassan (11)
		Malabar (13)
		Quilon (13)
	GROUP V (VERY LOW)	
	Chingleput (12)	Coimbatore (11)
Nil	Jaipur (6)	Poona (10)
	Hoshiarpur (5)	Ahmedabad (9)
	West Godavari (12)	Cuddapah (11)
	Kamrup (1)	Kurnool (10)
	Churu (6)	Broach (9)
	Cachar (1)	Bangalore (11)
	Lakhimpur (1)	

We may now consider the Interest-Rate Groups in relation to the economy of the districts included in the different groups, as also with reference to the extent to which facilities are available from the Imperial Bank, other commercial banks and co-operative financing agencies. The extent of development of these agencies of institutional credit in the different districts may be broadly judged as reflected in a few simple indices. For the Imperial Bank and the other commercial banks, the number of rural families per available unit (branch or other office of the bank) functioning during 1951-2, the year covered by the Survey, may be taken as an index of the stage of development. It would not do to take merely the number of available offices, since it makes all the difference whether it is a very populous district or a very sparsely inhabited one, which happens to have, say, a single branch of a commercial bank. In any case, for the Imperial Bank and the other commercial banks we cannot proceed on the basis that the loans advanced by them in a particular area amount to so much for each of them; figures are not available on that basis, so that we have to fall back on the number of units in relation to the population covered by them. For central co-operative banks (and other 'central

financing agencies' like branches of the state co-operative bank), however, number-cum-population would not be a suitable criterion; indeed, there are several districts where the availability of co-operative finance is relatively low, but the number of central co-operative banks per district happens to be particularly large. Moreover, figures of the advances actually made by central co-operative banks etc., are available in most cases for the year 1951-2. For these banks, therefore, we may adopt, as criterion of the stage of development, the average amount advanced as worked out per rural family in each district. Each of the 5 groups is considered below in the light of these criteria.

(1) *Group I (Very High Interest Rates)*

Of the 15 districts in which the interest rates are highest, 10 belong to category A (subsistence) and 5 to category B (monetized). It is of significance that not a single district belonging to category C (commercialized and monetized) falls in this group of very high interest rates. The operations of the Imperial Bank have not appreciably extended to districts of this group. For the group as a whole, on an average, there is only one branch of the Imperial Bank for about 3,73,000 rural families. Commercial banking too is poorly developed in the group, there being, on an average, only one office of a commercial bank for about 46,000 families. It is in the districts of Agra, Sirohi and Mohindergarh alone that one commercial bank is available for less than 30,000 families; but it has to be remembered that in Sirohi and Mohindergarh, the density of population is itself relatively low. In Jhabua and Shajapur no offices of commercial banks functioned at all during the year 1951-2. The co-operative central financing agencies in this group advanced less than Rs 4 per rural family during 1951-2. In two districts of the group there were no co-operative central financing agencies; and in one the newly started agency did not advance any loan during the year. Of the other districts, only in Shajapur were the activities of these institutions of some importance.

(2) *Group II (High Interest Rates)*

In this group, as many as 9 districts are again from category A (subsistence), while 4 belong to category B (monetized). The remaining 2 districts are from category C (commercialized and monetized). On an average, the Imperial Bank has one branch per every 1,37,000 families in this group. Chittorgarh, Raisen, Sultanpur and Osmanabad which do not have any branches of the Imperial Bank, and Midnapore where only one branch functions for 6,21,000 families, are at one extreme, while Meerut with its 7 branches serving, on an average, 42,000 families per branch and Bhagalpur with its 3 branches catering to 49,000 families per branch are at the other. Commercial banking is also not well developed in this group of districts. On the average, one commercial bank office serves 40,000 families. In several of the cases, the number of families per unit is significantly large; included in the group are Raisen with no commercial banking facilities at all, and Sultanpur with only one office of a commercial bank for the whole district. Advances by co-operative central financing agencies averaged about Rs 12 per rural family; in one of the districts, namely Chittorgarh, no such agency functioned; in none of the districts (barring Kanpur, where the advances averaged Rs 160 per family) were the activities of the co-operative institutions, as measured by the advances made, of an order which can be termed significant.

(3) *Group III (Medium Interest Rates)*

The third group comprises 7 districts from category A (subsistence) and 5 from category B (monetized). The remaining 3 districts (category C: commercialized and monetized) are Akola, Mahbubnagar and Ratnagiri which belong to the cotton belt, the oilseeds-growing Deccan, and the west coast tract respectively. On an average, there is one office of the Imperial Bank in this group for about 90,000 families. It has, however, to be noted that in as many as 8 districts, 2 from category C and 6 from categories A and B together, there are no branches at all of the Imperial Bank. There is one office of a commercial bank for about 21,000 rural families in this group of districts, as compared with one office for about 40,000 and 46,000 families, respectively in Groups II and I. The district of Koraput in this group has no commercial bank at all. Co-operative central financing agencies do not function in 3 districts; where they do function, the level of advances from them is generally somewhat higher than in Group II.

(4) *Group IV (Low Interest Rates)*

The fourth group includes one district, Mirzapur, from category A (subsistence), 6 districts from category B (monetized) and 8 from category C (commercialized and monetized). As compared with Groups II and III, this group is as a whole slightly worse off in regard to facilities afforded by the Imperial Bank, there being on an average only one branch for about 1,78,000 families. It has to be noticed, however, that the average is affected by the fact that the Imperial Bank has no branch at all in as many as 6 of the districts; 4 of these, as it happens, belonged to the erstwhile princely States to which the Imperial Bank had not extended its activities on anything like the same scale as was applicable to the former Provinces of 'British India'. Commercial banking is relatively well developed in this group of districts. On the average, there is one office of a commercial bank for about 7,000 families, which is a considerable improvement over the 3 preceding groups. In 8 districts of the group, one commercial bank office functions for less than 10,000 families, in 4 districts, the number of families served by commercial banks varies from 10,000 to 20,000 and only in 3 districts (Nizamabad, West Khandesh and Mirzapur), does one office serve more than 20,000 families. The co-operative superstructure is generally well developed, though there are 3 districts which are without co-operative central financing agencies. For the group as a whole, the average of advances from these agencies is about Rs 37 per rural family. In some of the districts, notably Mirzapur and Jalpaiguri, the advances of central financing agencies are extremely low, but in 3 of the districts, the average advance exceeds Rs 50 per family.

(5) *Group V (Very Low Interest Rates)*

The fifth and last of the groups to be considered, the one in which interest rates are lowest, comprises 7 districts of category C (commercialized and monetized) and 8 districts of category B (monetized). It is significant that category A (subsistence) does not figure at all in this group. There is, on the average, one branch of the Imperial Bank for about 1,02,000 families in this group of districts. This average position is largely influenced by four districts in which the Imperial Bank does not operate; it is significant

that all these 4 districts are in category B. As in the case of the fourth group of districts, commercial banking is relatively well developed. On the average, there is one office of a commercial bank for about 10,000 families. In 6 districts, 4 of them pertaining to category C, there is one such office for less than 10,000 families. There are 2 districts, Bangalore and Churu, in which no co-operative central financing agency is located. The advances of co-operative central financing agencies in this group work out to an average of Rs 46 per rural family. In the 3 Assam districts and in Jaipur, the advances in question are negligible: elsewhere they are relatively high; and in 4 districts of this group the average exceeds Rs 100 per family.

Summing up

9. A few observations may be made by way of summing up the data we have considered. As judged by the average levels of borrowing, credit is most available in districts of category C (commercialized and monetized), less in category B (monetized) and least in category A (subsistence). Further, in point of development of structure, commercial and co-operative banking reaches a relatively high level in districts of category C; it is less well developed in category B; while in many of the areas included in category A it is either ill developed or not developed at all. Finally, attention may be drawn to the fact that, with the sole exception of Mirzapur, the districts with 'low' and 'very low' interest rate levels are in tracts which are monetized (category B) or both commercialized and monetized (category C). Not only the activities of commercial banks, but also of co-operative financing agencies, are of a significantly higher order in the monetized, or commercialized and monetized, areas than in the regions characterized by a subsistence economy. The pattern of development of the Imperial Bank is broadly similar; here again it is the subsistence tracts that are most without the facilities provided by that State-associated institution.

IV. SEARCH FOR SOLUTION: THE STATE AGENCY

CHAPTER 17

RECORD OF CENTRAL GOVERNMENT AND STATE GOVERNMENTS

Government finance for agriculture

AGRICULTURAL credit from Government takes the age-old form of *taccavi*. The legal framework is provided by two well-known pieces of legislation, the Land Improvement Loans Act of 1883, and the Agriculturists' Loans Act of 1884. The former is broadly concerned with long-term loans and the latter with short-term accommodation. It is these parent Acts or their derivatives and variants, together with the rules under each, that operate in most States, incidentally bringing about a broad measure of uniformity in the credit dealings of State Governments with their agriculturists. A dependence on the revenue agency for the disbursement of *taccavi* and the difficulty of finding money for the financing of it are two other characteristics common to most States; these again have contributed to a broad uniformity of feature in the system of *taccavi*, in whatever part of the country its operations are studied. A relatively recent, but very important, development is the grow-more-food scheme which, by virtue of the Central assistance behind it, has resulted in a noteworthy expansion of the financial content of *taccavi* without, however, any significant alteration in its legal and administrative mould. The only other recent development which merits mention is the inclusion of agricultural finance in the various forms of assistance given under a number of schemes in different States for the rehabilitation of displaced persons; this form of Government finance for agriculture is specially important in Punjab, West Bengal and Assam.

'Taccavi'

2. *Taccavi* has a vital role in times of famine and distress. Indeed its historical origin lay in this particular function. It has, further, a potentially important part to play in relation to areas or classes of people that are specially backward. To assess the system, however, one must exclude these contexts and place it in a setting more normal as to season, area and class of borrower; and one must then consider it as a system of supply of agricultural credit to the cultivator, for subsistence as well as for production, but with greater emphasis on the latter. One then sees that, in practice, *taccavi* is apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency. It would not be far from the truth to say that the record of *taccavi* is a record of inadequacies. These may be considered in their different aspects which are: (i) inadequacy of amount, inequality of distribution and inappropriateness of basis of security; (ii) inconvenience of timing, incidental delays, and impositions of various kinds on the borrower and (iii) inefficiency of supervision and incompleteness of co-ordination. Data and, wherever appropriate, views and observations of respondents and committees, are grouped round these topics in the divisions of the chapter which follow.

I. INADEQUACY OF AMOUNT, INEQUALITY OF DISTRIBUTION AND INAPPROPRIATENESS OF BASIS OF SECURITY

Inadequacy of amount

3. The all-India average for borrowings of cultivators from Government as a percentage of their total borrowings has already been given. It was about 3 per cent for the year of Survey. There is considerable variation between States as may be seen from the following details:

State	Proportion of borrowings from Government to the total borrowings Per cent
Assam	6.2
Bihar	4.7
Bombay	4.6
Madhya Pradesh	12.8
Madras	2.3
Orissa	1.4
Punjab	14.6
Uttar Pradesh	0 9
West Bengal	1.8
Hyderabad	1.8
Madhya Bharat	8.7
Mysore	0.02
PEPSU	0.3
Rajasthan	0 6
Vindhya Pradesh	1.2

(*Note:* In certain States, only one district was surveyed. These are omitted in the table.)

It emerges from a consideration of the data, district-wise, that the proportion was less than 5 per cent in roughly 2 out of every 3 districts; between 5 per cent and 20 per cent in roughly 1 out of every 5 districts; and more than 20 per cent in only 1 out of every 20 districts. There were 8 districts in which the cultivators did not report any borrowings from Government.

The figures mentioned do not distinguish between duration (short-term and long-term) or purpose (agricultural, non-agricultural, consumption, etc.). The following table provides for these distinctions and indicates the individual proportions of Government

loans of different types to (i) borrowings from all sources and (ii) borrowings from Government alone.

Purpose/Duration	Amount borrowed for this purpose/ duration from Government as percentage of the total borrowings from all agencies for the same purpose/duration	Amount borrowed for this purpose/ duration from Government as percentage of the total borrowings from Government
	Per cent	Per cent
Agricultural		
Short-term	2.8	13.3
Long-term	6.0	58.8
Non-agricultural		
Short-term	—	—
Long-term	0.6	0.8
Consumption		
Short-term	2.1	14.6
Long-term	1.0	7.9
Repayment of old debts	0.8	0.7
Other purposes	0.8	3.9

In relation to the total finance from Government, long-term loans (including in this context medium-term loans) from the State are by far the most important. But, in the wider pattern, even these constitute only 6.0 per cent of the total borrowings from all sources.

The inadequacy of finance illustrated above is often inherent in the rules of State Governments which, in their turn, of course reflect the smallness of the financial resources which State Governments can spare for this purpose. In one State, for example, the rule is that " in case of short-term loans the average loan per head should not exceed Rs 15 and the maximum should not exceed Rs 25 in any individual case." Though long-term accommodation predominates as a type in the agricultural finance provided by Government, individual loans often fall short of the actual requirements for which they are given. The average loan for purchase of livestock was Rs 117 in Orissa, Rs 149 in West Bengal, Rs 211 in Hyderabad and Rs 240 in Rajasthan. For digging or repairing wells, the average loan amounted to Rs 370 in Mysore, Rs 467 in Rajasthan, Rs 473 in Madhya Bharat and Rs 481 in Bihar; in Bombay, however, it was Rs 1,312 and in Punjab Rs 1,588. Usually, the amount disbursed was much smaller than had been asked for by the cultivator, though it is not of course suggested that the latter was always moderate in putting down his requirement. The fact may nevertheless be mentioned that one out of every twelve of the borrowing cultivators said that the amount he got was 25 per cent or less of that applied for, while one out of every three reported that it was 26 per cent to 50 per cent of the requirement indicated.

Inequality of distribution

4. If the distribution of these small amounts is considered classwise for the cultivators, considerable inequality in favour of the big and large cultivator is noticeable:

Type of cultivator	Amount borrowed from Government by this group as percentage of the total borrowings from all agencies by this group	Amount borrowed from Government by this group of cultivators as percentage of total borrowings of all cultivators from Government
	Per cent	Per cent
Big	4.5	34.5
Large	3.8	58.1
Medium	3.2	32.1
Small	2.0	9.8

It is also seen that the average borrowing of the big cultivator was nearly 4 times that of the medium cultivator and roughly 10 times that of the small. One important reason for this is to be found in the nature of the purposes for which Government finance is made available. These purposes are often related to forms of improvement of land or methods of increase of production such as are beyond the scope of the medium and small cultivators, e.g., digging of wells, buying of oil-engines, etc.

Inappropriateness of basis of security

5. Part of the explanation, however, lies in the nature of security usually demanded for Government loans. This is immovable property, that is to say, in this context, land. The Registrar of Co-operative Societies of a Part A State observes: "In actual practice, the greatest importance is attached to the ratio of the loan amount to the value of the collateral pledged so that it [*taccavi*] becomes in the long run only moneylending at low rates of interest, with practically perfect safety to the lender, i.e., Government. . . . The sanctioning authority has no acquaintance directly with the applicants, for the applications are scrutinized and sent up by subordinate revenue officials; and the district magistrate on whom vests the ultimate function of general co-ordination knows of the effects only indirectly through experience gathered through his touring." That several State Governments advance loans primarily against the security of immovable property is also confirmed by the Survey data. Advances against security of immovable property in comparison with the total advances by Government constituted 100 per cent in Hyderabad, 99 per cent in Mysore, 97 per cent in Bombay, 95 per cent in Vindhya Pradesh, 89 per cent in Madras, 79 per cent in Madhya Pradesh and 75 per cent in Punjab.

The effect of this undue emphasis on ownership of property as basis of security is referred to in the following terms by the Grow More Food Enquiry Committee: "There is one point connected with the programme of wells which we would like to deal with specially. The present system of sinking private wells by the grant of *taccavi*, or *taccavi* and subsidy, cannot be availed of by the smaller landholders and tenants as, in many

cases, they are unable to furnish the landed or other security required by the rules. The result is that, under it, large sections of agriculturists are left out and are not assisted to take up improved agriculture, and production suffers."[1]

Other features

6. There are other reasons, besides the nature of the security demanded, for the bias of the system towards the big and the large cultivators. For distribution of *taccavi* in kind (e.g., fertilizer), Governments often make use of local committees. The persons who constitute these village committees, taluka committees, etc., are quite often themselves the representatives of the 'upper ten' in the village. A respondent from a Part A State mentions a case in point: "Manure distribution passed through several changes. The Agricultural Department was originally asked to distribute groundnut cakes to ryots from their depots on the recommendation of village committees who were authorized to issue permits. The demonstrator distributed to the ryots. The taluk committee fixed the village quota. The taluk quota was fixed for each taluk by the Agricultural Department. Groundnut cake was procured as a monopoly up to 60 per cent of production from the mills. This system did not work well. It led to unequal distribution among the influential rich." Another set of considerations, illustrated from a Part A State, is as follows: "One of the rules permits choice from among the applicants when the amount is less and the applicants are many. This rule gives scope for plenty of abuse. Another rule enjoins on the revenue officers in charge of the taluk to distribute loans direct. This power too may be abused. Enquiries into the conduct of a few revenue officers done departmentally through a special tribunal and their dismissal during the last five years are a testimony to this abuse."

Reverting to inadequacy of amount, we find that several respondents emphasize this aspect and call the Government loans 'ridiculously inadequate' (head of a district in a Part A State), 'far too inadequate as compared to the genuine needs' (Registrar of Co-operative Societies of another Part A State) and so on. A deputy commissioner from still another Part A State points out, as one of the reasons of inadequacy, that "the distribution of loans is made so as to ensure the satisfaction of the minimum needs of the maximum number of cultivators." The Deputy Finance Minister of a certain State holds that "the system of *taccavi* as conceived and administered by Government is not a system of finance at all, but one of casual advances. Relief of distress being the objective, its classification, nature and the manner of repayment are all questions of exigencies, and the budgetary provisions made have no relation to the agriculturists' actual needs. Thus, it fails to comply with the standard needed for a scheme of agricultural finance and is generally taken by those who need it the least." The working of the system is succinctly set out by the Registrar of Co-operative Societies of another State, whose description combines many of the considerations brought to notice in the extracts already given from the replies of other respondents: "While sanctioning loans, rigid emphasis is laid on the value of the collateral in actual practice. The result is that loans granted have more relationship with the assets or credit of the applicant and little, if any, to the needs of the borrower. Limitation of amount granted to the successful applicants, is, in my opinion, fairly satisfactory if only successful applicants are taken into account. But sometimes a harassed and overworked revenue official flooded

[1] *Report of the Grow More Food Enquiry Committee*, 1952, p. 63.

with a large number of perfectly good applications and a very limited amount of allotment tends to please a larger percentage by cutting down individual sanctions so as to indirectly achieve some sort of 'rationing' of funds. Of course, this is done generally without any specific formal written acceptance of such a policy and more with a view to 'satisfying' a larger number of applicants. The result is that very few people are really adequately financed. Again, since disbursements are concentrated on the last few days of the financial year, actually, recipients are generally those whose applications happen to have come up after scrutiny and who are persistent enough to hang on for the last two days for receiving payment, so that I am not prepared to admit that the actual disbursement does not result in relatively urgent needs being passed over in favour of others of less importance. And, they are certainly being so passed over if the more urgently 'needy' have less satisfactory assets."

II. INCONVENIENCE OF TIMING, INCIDENTAL DELAYS AND IMPOSITIONS OF VARIOUS KINDS ON THE BORROWER

Inconvenience of timing etc.

7. According to several of those whose replies throw light on this matter, the time taken in sanctioning the loans is such as to frustrate the very object of Government's assistance to the agriculturist. For instance, a district magistrate, speaking of his experience in a Part A State, says: "The cattle purchase loan is never received before the beginning of the Bengali year (*Baisakh*) and amounts sanctioned in individual cases cannot exceed Rs 300 with the result that it is very often utilized for purchase of manures etc., or even spent as subsistence loan." Recording its view briefly, the Grow More Food Enquiry Committee (1952) says: "We have received complaints of delays in the grant of such loans [*taccavi*] and of irregularities in actual disbursement. We recommend that States should examine carefully the procedure followed and improve it."[1] Elaborating this aspect, the Bombay Grow More Food Policy Committee (1951) says: "It is very often found that the allotment for the new financial year which begins from 1 April is not communicated to the taluka officers even by the middle of June, with the result that during April and May, when the demand for *taccavi* is very large, funds are not available for disbursement." It adds: "During the tours of the Committee, numerous complaints were made and dissatisfaction expressed about dispensation of *taccavi*. The complaints related to inadequacy of the amounts given in relation to the requirements, delay in the disposal of applications, illegal gratification required to be paid for obtaining loans and inconvenience and loss of valuable time in expediting disposal by visiting revenue officers. . . . We realize the necessity of careful scrutiny of applications for *taccavi* and the inevitable period required for the purpose. It seems that there has not been a proportionate increase in the staff dealing with *taccavi* applications as compared to the increase in the volume of work."[2]

Much delay and bad timing are also the main points of criticism of an official respondent from a Part A State: "The real defect, in my humble opinion, is the time and manner of its disbursement. Usually, I have found from practical experience, that there

[1] *Report of the Grow More Food Enquiry Committee*, 1952, p. 66.

[2] *Report of the Grow More Food Policy Committee* (Bombay), 1951, pp. 121-2.

is a rush to disburse loans towards the end of the financial year. In fact, sometimes practically most of the disbursements are made on the last two or three days of March. This is, of course, not an inherent part of the scheme itself, but an inevitable consequence of the system of governmental administration with its late sanctioning of allotments and rigid insistence on lapsing after midnight of 31 March." While it is last minute rush which this respondent emphasizes, a chronic and undiscriminating hurry is detected as a new danger by an experienced non-official co-operator of another Part A State. He says: " Delay, which was the normal drawback of *taccavi* in old days, was replaced by the opposite evil of haste. The other evils of inefficiency and maladministration were certainly not lessened in their intensity. All these features have culminated in a load of overdues which it will not be easy to recover."

It is difficult to gauge the extent of administrative delay through statistics of the type we have been able to collect. Certainly, in some districts at least, a large number of the loans granted took 8 months or more to disburse:

District	Proportion of the number of loans disbursed after a time lag of 8 months or more
	Per cent
Shajapur	31
Bangalore	26
Chanda	24
Sawai Madhopur	22
Jhabua	22

About 7 per cent of the ' selected ' cultivators said, in answering the relevant demand questionnaire, that it took 5 to 8 months for Government to disburse the loans, but about 80 per cent said that the period involved was 3 months or less. The following particulars will therefore be seen to be at variance with some of the views we have quoted, while in consonance with one of them, viz., that delay is not now one of the main evils of *taccavi*:

Type of cultivator	Proportion of number of cultivators who received loans from Government after this time lag between the dates of application and disbursement as percentage of the total number of cultivators who received loans from Government						
	One month or less	1-3 months	3-5 months	5-8 months	Over 8 months	Un-specified	Total
Upper 50 per cent of the cultivators	43	29	15	10			100
Lower 50 per cent of the cultivators	51	40					100

The rates of interest which Governments charge on their advances vary from State to State, but usually range around 6¼ per cent. According to some of our respondents, this by no means implies that the actual cost of a loan to the cultivator is correspondingly low. Thus a non-official connected with a central co-operative bank in a Part A State says: "The procedure is so laborious and so expensive that he [the cultivator] finds at the time the loan is disbursed that a third or half of it is already spent in the process of getting it. No leniency is shown and the cultivator has to repay with interest from his other meagre resources and borrowings. The cultivator pays dearly in the end without his land being improved in any way. Thus the objects are completely defeated." By others who have commented on this aspect it is pointed out that the loan application is passed on in the traditional manner of official disposal from one revenue office to another. The cultivator, or those who purport to interest themselves on his behalf, thereupon resort to the practice of visiting circle offices, taluka offices and even district offices in an effort to get the application disposed of 'favourably', if possible, speedily in any case. Each visit to taluka town or district headquarters adds to the actual cost of the credit. Part of this addition, according to many respondents, is the illegal gratification which passes from applicant to lower official. Moreover, loans are almost always disbursed in the taluka headquarters and not in the village itself. Out of 7,194 sanctioned applications studied for the Survey, in only 669 cases was the amount reported to have been handed over to the applicant in his own village.

III. INEFFICIENCY OF SUPERVISION AND INCOMPLETENESS OF CO-ORDINATION

Inefficiency of supervision

8. The revenue administration is well known to have multifarious duties, even as the subordinate revenue official is well known to have multifarious ways of discharging them. We say this without seeking to add to the maligning of one who, even if he is not without his own share of sins to bear, is at the same time perhaps as overmaligned as he is certainly overworked and possibly underpaid. The fact remains that he has neither time nor training nor inclination to bring to the specialized and whole-time task of supervision of credit. That task does not begin and end with some rough assessment of 'creditworthiness'; it may involve, for example, the pre-ascertainment of need and purpose of the potential borrower or of the technical soundness of the agricultural improvement he has in contemplation; it also involves the following-up of the loan itself by verification of the manner in which it is used. The agency employed by Government being what it is, it is not surprising that some of these essential features are lacking in the system of *taccavi* as it actually operates. To cite an example reported by a non-official respondent: "The construction of private tanks [in a district in a Part A State] was sanctioned on a maximum subsidy of half the expenses amounting to Rs 2,000. Under the scheme, loans for wells are to be enquired into and distributed by the revenue staff who had no knowledge of water-tables below the surface nor about the character of the land, whether it was sub-marginal or yielding." According to a sub-divisional revenue officer of another Part A State, the system of *taccavi* works unsatisfactorily when the object of the loan is to sink a well or to construct a tank or a bund, all of which presuppose technical knowledge; he says: "The present staff is inadequate for supervision over the utilization of the loans.

The delay in getting the loan is partly due to the ignorance of the cultivator and the inefficiency of the staff." Commenting on the aspect of misutilization, the Bombay Grow More Food Policy Committee observes: "Some cases of misuse of *taccavi* loans were also reported to the Committee. Such misuse seems to be due to the following reasons:

(1) amounts not being received in time for the purposes for which they are intended;
(2) inadequate amounts being supplied as compared to the cost of the articles proposed to be purchased;
(3) intentional misuse in some cases.

"We realize the necessity of careful scrutiny of applications for *taccavi* and the inevitable period required for the purpose. It seems that there has not been a proportionate increase in the staff dealing with *taccavi* applications as compared to the increase in the volume of work."[1]

The inadequacy of staff is not always that of revenue staff. For distribution of manure, agricultural implements, etc., as *taccavi* in kind, many of the State Governments use the agency of their agricultural departments. Writes a non-official respondent, referring to his experience in one such State: "Under the old scheme, the agricultural demonstrator had a fieldman and two *maistries* for each *firka* and a minimum of two sale depots for each taluka. At present . . . there is only one depot at taluka headquarters and the field staff is exactly halved. Agricultural requisites should be made available at the door of the ryot and there should be continuity of contact. Fieldman and demonstration *maistries* cannot reach all the ryots. They cannot inspire confidence. Their anxiety is to secure a seat in the return bus and reach the headquarters."

Incompleteness of co-ordination

9. Along with the lack of supervision and general lack of efficiency of State credit goes a lack of co-ordination between the different departments concerned with the operation of the system. There are instances of far too many departments having been entrusted with different types of *taccavi*. Thus in one Part A State 'agricultural loans' and 'land improvement loans' (i.e., ordinary *taccavi*) are given by one department and seed loans and cattle purchase loans by another; co-operative loans are given by still another department and loans for displaced persons by a fourth. We learn that, as a result, people sometimes manage to borrow from more than one department. The administrative overlapping and wastage are obvious. In varying degrees, the same thing happens in other States and other contexts. This is what is reported by an experienced official of another Part A State: "The loans sanctioned by the Agricultural Department are done without consulting the Revenue Department and, when the former finds it difficult to recover the loan from the loanee, the help of the Revenue Department is sought to recover the loan. In such cases, at times, the loanees may be insolvent and consequently much difficulty is experienced in the recovery of the loan, thus resulting in financial wastefulness to the Government. If the different schemes of the Government were properly co-ordinated, e.g., the Agricultural Department consulting the Revenue Department prior to granting of a loan, as to the solvency of the applicant, much financial wastefulness could be well avoided." A knowledgeable non-official respondent refers to the lack of co-ordination in another context: "The grow-more-food campaign was another occasion for loans to be made to cultivators

[1] *Report of the Grow More Food Policy Committee* (Bombay), 1951, p. 121.

in several cases through official and non-official agencies other than the revenue department. Duplication and over-finance could not be avoided in this system. The same borrower who would touch the grow-more-food administration for seed or manure would obtain *taccavi* from the revenue [department] for these and other purposes."

Lack of co-ordination occurs not only between one department of Government and another, but between Government on the one side and the co-operative credit agency of the State on the other. Referring to both types of lack of co-ordination, the Registrar of Co-operative Societies of a Part A State makes these comments: "There is no co-ordination between governmental schemes and co-operative institutions, for unfortunately, at present, there is little contact between co-operative officials and administrative officials in actual practice at the district or village level. So far as the different schemes of the Government itself are concerned, there is harmony in regard to objects, financial provisions and administrative arrangements, in so far as they are co-ordinated through the district magistrate. But even here it is my personal experience that there is a tendency to create independent drawing and disbursing officers who do not come under the general co-ordinating function of the district officer but who deal directly with some special department of Government. There has been recently such a multiplication of governmental activities and departments that in some cases each is acting independently of the other even with regard to almost similar schemes." We may conclude with the remarks of an experienced ex-Registrar of Co-operative Societies of an important Part A State whose remarks confirm that the system of *taccavi* is characterized, among other things, by grave lack of co-ordination both internally within the structure of Government and externally with other systems of finance for the cultivator. He says: "Government schemes of agricultural credit in many respects are neither co-ordinated with one another nor with similar operations of co-operative institutions. For instance, both the Revenue and Agricultural Departments provide agricultural finance. Again, these agencies operate in areas served by co-operative institutions and advance loans for the very purpose for which co-operative agencies can and do advance loans at rates lower than the co-operative agencies. There is thus duplication of agencies, duplication of finance and a variety of rates and terms of loans for different types of agricultural credit."

V. SEARCH FOR SOLUTION: THE CO-OPERATIVE AGENCY

CHAPTER 18

RECORD OF CO-OPERATIVE AGENCY (I): ACCOUNT OF PRESENT POSITION

Introductory

CO-OPERATION in India—one may even speak of it as the Indian Co-operative Movement—has just completed fifty years of its existence. But an effort of the imagination is required to visualize the Movement as a single entity for the whole of India or as one consistent process since it was first officially established in this country in 1904. In the distinctive features of its development in different parts of India, the lack of uniformity is at least as discernible as uniformity. Its record over the years is strewn with bewildering contradictions: high individual endeavour and general lack of leadership; official sponsorship, including official regulation and administration, as a deliberate and consistent policy of the Central Government and all State Governments, but sponsorship which in some States has been real, enthusiastic and, in an administrative sense, efficient, while in many States it has remained notably inefficient and almost as nominal as the existence of the Movement itself in those areas; Governments at times seemingly all out to help, mostly by offering to multiply the number of societies and organize and administer them further, rather than by proposing to supervise them further or (least of all) finance them further; and Governments at other times displaying considerable caution administratively (the euphemism usually employed is 'consolidation') and considerable hesitancy financially; peaks of popular sentiment and enthusiasm for the co-operative idea and periods of widespread lack of public confidence in the co-operative movement; significant success in sporadic cases and much failure in the generality of instances; and, finally, as the one feature common to most regions of the country, the acquisition of five decades of experience from which may be learnt decisive lessons for the future, if only one is prepared to delve deep for them and extract them from both failure and success. In this Report, we are concerned not so much with the record as a whole as with the lessons to be learnt from it; nor with the Movement as a whole, but with such of its aspects as have a bearing on credit. The 'account of present position' in this chapter and the 'assessment of performance' in the one which follows are broadly confined to these particular aspects; and none of the comments or appraisals in either should be construed as directed to other and unconnected features of the Movement.

In general, the account set out in this chapter is of the position reached by the co-operative agency at the end of 1951-2, which, besides being the year of the Survey, happens to be the latest year for which published data are available on an all-India basis. Known developments subsequent to that year are indicated where they are of sufficient importance. The particulars given are principally of structure and organization and to some extent of operations; they relate to co-operative credit and are further confined to the agricultural sector of that credit; and, except where otherwise stated, they are taken from the *Statistical Statements relating to the Co-operative Movement in India* published by the

Agricultural Credit Department of the Reserve Bank of India. Of the three sections of the chapter, the first two deal with short-term and long-term credit respectively. It has so happened that, during the course of the last 50 years, the progress of co-operative credit in India at different times came under the review of important committees, commissions, etc. A cross-section of their views, as also of those expressed in the replies to our Questionnaire, is presented in the third part of the chapter as throwing light on the different phases of achievement of the co-operative movement culminating in its present position.

I. SHORT-TERM AGRICULTURAL CREDIT

A. STATE CO-OPERATIVE BANKS

State co-operative (or apex) banks

2. There were 16 state co-operative banks in 1951-2.[1] Five more have been set up since then as part of State programmes of development of co-operative credit formulated by the Governments concerned in consultation with the Reserve Bank. The States in which the new apex banks have been established are: Himachal Pradesh, Madhya Bharat, Rajasthan, PEPSU and Travancore-Cochin. Substantial State participation in share capital is a feature of all the new banks, as also of some of the older ones such as Bombay and the reconstituted ones such as West Bengal, Hyderabad and Mysore. A state co-operative bank has also been established in Andhra by the bifurcation of the parent state co-operative bank of Madras. State co-operative banks now exist in all Part A States, in all Part B States (excluding Jammu and Kashmir) and in four out of the ten Part C States.

The share capital and reserves of state co-operative banks stood at Rs 1.90 crores and Rs 2.36 crores respectively. Their deposits and working capital amounted to Rs 21.18 crores and Rs 36.72 crores. The loans advanced to individuals totalled Rs 6.86 crores while loans amounting to Rs 48.42 crores were advanced to banks and societies. Overdues from individuals and from banks and societies formed 12.6 per cent and 16.4 per cent respectively, of the outstandings.

Five state co-operative banks had share capital which was less than 5 per cent, and four banks had owned capital (i.e., share capital and reserves) which was less than 10 per cent of the working capital. From the point of view of sound co-operative banking, this is an inadequacy which needs to be rectified; it also stands in the way of larger borrowing programmes.

Deposits are generally unsatisfactory. The total deposits amounted to Rs 21.18 crores of which Rs 11.48 crores or 54 per cent pertained to the state co-operative banks of Bombay and Madras. The total of Rs 21.18 crores consisted of Rs 8.39 crores from co-operative banks and societies and Rs 12.79 crores from individuals and other sources.

The total working capital of all state co-operative banks amounted to Rs 36.72 crores. Of this amount, owned capital (i.e., share capital and reserves) formed 11.6 per cent and deposits 57.7 per cent; the rest, or 30.7 per cent, was accounted for by borrowings from various sources, viz., 18.7 per cent from the Reserve Bank, 6.8 per cent from commercial banks, 4.9 per cent from Government and 0.3 per cent from other sources.

[1] In Assam, there were two apex banks during 1951-2, viz., the Assam Co-operative Apex Bank established in 1948 and the old Provincial Co-operative Bank. The latter institution is not, however, functioning at present.

3. The loan operations of some of the state co-operative banks reveal certain defects:

Loan operations of apex banks

(*a*) Some of the banks finance traders, merchants and other 'individuals'—i.e., persons who are not members of primary societies—to the relative neglect of co-operative finance. The percentage of finance obtained by individual members to the total advances was as high as 74 in Madhya Pradesh and 30 in Hyderabad.

(*b*) Some banks (e.g., Ajmer, Hyderabad and Mysore) have made substantial long-term loans out of short-term funds (e.g., for financing house-building societies, providing loans on mortgage of houses, etc.).

(*c*) The combination of trading with banking in the "Credit Agricole Scheme" of the Bihar State Co-operative Bank has, in the result, given a set-back to the credit movement in that State.

Some indication of the position regarding overdues may be given; the percentage of overdues to loans outstanding from banks and societies was as high as 82 in West Bengal, 43 in Bihar, 21 in Hyderabad and nearly 20 in Madhya Pradesh, Mysore and Punjab. In respect of its dealings with individuals, 50 per cent of the loans of the apex bank in Hyderabad was overdue.

In general, and barring two or three of the States relatively well developed in this respect, state co-operative banks have yet to become effective units of a co-ordinated structure of co-operative credit.

B. CENTRAL CO-OPERATIVE BANKS AND BANKING UNIONS

Central banks

4. There were 509 central co-operative banks and banking unions with a membership of 1,18,406 individuals and 1,12,912 banks and societies in 1951-2. The share capital of the central banks and unions amounted to Rs 4.62 crores, their reserves to Rs 5.19 crores, deposits to Rs 38.23 crores and working capital to Rs 60.11 crores. The amount of loans advanced to individuals on the one hand and banks and societies on the other totalled Rs 6.95 crores and Rs 98.68 crores, respectively. The percentage of overdues to outstandings was 15 in respect of individuals and 13 in respect of banks and societies.

In many of the States, there is an excessive number of central banks and banking unions; as a consequence, the average number of societies affiliated to each central bank is often too small to admit of adequate business. The following are some examples:

State	No. of central banks and banking unions	No. of districts	Average number of societies affiliated per bank
Hyderabad	45	16	99
Bihar	53	18	161
Punjab	65	13	183
Madhya Pradesh	41	22	208
Orissa	23	13	234
West Bengal	40	15	242

The capital structure of central banks in a large number of States is very weak As contrasted with Bombay and Madras,[1] where the average share capital per central bank was Rs 3.14 lakhs and Rs 4.87 lakhs respectively, the average for almost all of the remaining States was less than Rs 1 lakh. In 12 States the average share capital per central bank was less than Rs 50,000.

The average statutory reserve fund was less than Rs 1 lakh per bank in all States[2] except Madras and Bombay ; in 15 States the average was less than Rs 50,000.

If average owned funds (capital plus reserves) are considered, the average per bank was Rs 5.7 lakhs for Bombay and Rs 8.8 lakhs for Madras. In all the other States,[2] the average was less than the standard of Rs 3 lakhs indicated as the required minimum by the Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India. In eight States, the average was less than Rs 1 lakh; five among the eight States had an average of less than Rs 50,000.

The bulk of the deposits in a majority of the States was attributable to sources other than co-operatives. Thus, out of a total of Rs 38.23 crores of deposits, as much as Rs 26.75 crores (or 70 per cent) were contributed by individuals and other sources. In some of the States (e.g., Bihar and Hyderabad) central banks do not usually accept current deposits.

Only in three States,[3] viz., Bombay, Madras and Travancore-Cochin, did the average working capital per bank satisfy the standards of minimum working capital indicated by the Standing Advisory Committee on Agricultural Credit of the Reserve Bank, viz., Rs 20 to 25 lakhs.

It may therefore be said as a general statement of the position that the capital structure of central banks is very weak, their owned resources meagre and their dependence upon apex banks necessarily large.

Loan operations of central banks

5. Of the unsatisfactory features in the loan operations of central banks, the following are the more important:

(*a*) In some States, business with individual members accounts for a large proportion of the advances made by the banks. In Madhya Bharat and Rajasthan, the relevant percentage was above 50. It was 39 in Madhya Pradesh, 25 in Hyderabad and 13 in Bombay. The Agricultural Credit Organization Committee (Bombay) refers to " the growing indifference of some of these institutions [central banks] to the needs and the viewpoint of the village primaries ",[4] and to their propensity for doing business with individual borrowers, very often traders, in preference to co-operatives. The Committee ascribes this tendency to the preponderance of urban elements in the directorates of the banks.

(*b*) A certain number of central banks (e.g., in Bihar, Orissa, Punjab and West Bengal) undertook trading activities during the war and post-war periods. The general experience has not been happy and some of the banks suffered serious losses in consequence of their commercial ventures.

[1] The reference here, and in subsequent contexts except where otherwise stated, is to the composite Madras State, before its division into Madras and Andhra.

[2] Excluding Delhi the only central bank in which had a reserve fund of Rs 1.83 lakhs and owned funds of Rs 5.40 lakhs.

[3] In Delhi, however, the working capital of the one central bank operating in the State was Rs 34 lakhs.

[4] *Report of the Agricultural Credit Organization Committee* (Bombay), 1947, p. 25.

(*c*) The percentage of overdues from societies was very high in many States. It was 36 in West Bengal, 30 in Hyderabad, 29 in Madhya Bharat, 23 in Bihar, 20 in Rajasthan and 18 in Orissa and Delhi.

(*d*) There were bad and doubtful debts of an appreciable order in some of the States; in a few instances, the bad debts reserves were quite inadequate for the purpose intended.

(*e*) In general, the staff employed by central banks are ill-equipped for the nature of the duties they have to perform; quite often they are also inadequate for the volume of the task they have to discharge.

C. PRIMARY AGRICULTURAL CREDIT SOCIETIES

Primary agricultural credit societies

6. The following table gives the main statistics regarding agricultural credit societies[1] for the year 1951-2.

No. of societies	1,07,925
Membership	47,76,819
	Rs in crores
Paid-up share capital	8.92
Reserve and other funds	8.75
Deposits:	
Members	2.57
Non-members	1.65
Societies	0.18
Loans held at the end of the year from :	
State or central co-operative banks	22.67
Government	0.48
Working capital	45.22
Loans made during the year	24.21
Loans due at the end of the year	33.66
Overdues	8.52

The regional distribution of the credit is very uneven. Bombay and Madras accounted for 64 per cent of the total loans made by primary agricultural credit societies in the country in 1951-2.

Some particulars regarding the audit classification of societies may also be given. The classification is made by the Registrars concerned. Broadly, model societies are supposed to be classed as 'A'; societies in a fairly sound condition as 'B'; the mediocre ones as 'C'; societies functioning in a bad way as 'D'; and the utterly hopeless ones as 'E'.

[1] Excluding grain banks.

The available data which relate to all primary societies (i.e., non-credit as well as credit) are summarized in the following table :

Class	Percentage to total number of societies for which audit classification is available
A	3.5
B	16.4
C	59.5
D	17.0
E	3.6
Total	100.0

Further, as on 30 June 1952 there were 10,856 societies under liquidation. Of these 8,724 were agricultural societies. The latter constituted 5.7 per cent of the total number of agricultural societies.

As a rule, membership per society is small, so that the vast majority of societies are uneconomic as business units. The average membership of societies was 44; separate figures for some States are 18 for Madhya Pradesh, 22 for Madhya Bharat, 24 for Ajmer and West Bengal, 25 for Bihar and Delhi, 26 for Assam, 33 for Uttar Pradesh and 34 for Orissa as compared with 79 and 88 for Bombay and Madras respectively.

The following table shows the relationship between membership of agricultural credit societies and the rural population in some of the States:

State	One member for so many rural inhabitants	Percentage of members to rural inhabitants	Percentage of members to rural families
(1)	(2)	(3)	(4)
Coorg	10	10.4	51.9
Punjab	30	3.3	21.0
Madras	31	3.2	16.6
Bombay	32	3.1	17.5
Madhya Bharat	50	2.0	11.8
Travancore-Cochin	50	2.0	10.9
Uttar Pradesh	61	1.6	8.7
Orissa	101	1.0	5.2
Madhya Pradesh	126	0.8	4.0
Rajasthan	352	0.3	1.6
Saurashtra	382	0.3	1.6
Bihar	477	0.2	1.1
Assam	507	0.2	1.1

(Explanatory Note)

Column 2: The total rural population of each State as given in the Census Report (1951) is divided by the total number of members of agricultural credit societies and the result corrected to the nearest integer.

Column 4: The number of rural families for each State is the same as that estimated and adopted for the purposes of the All-India Rural Credit Survey, except in the case of one State which was not covered by the Survey, viz., Coorg, for which the total number of rural families has been assumed to be one-fifth of the total number of rural inhabitants.

On the figures for 1951-2 the average share capital per society was Rs 827. It was the highest in Bombay at Rs 2,866 per society. Punjab came next with Rs 1,278 while Madras was third with Rs 1,156. With the exception of Uttar Pradesh which had an average of Rs 541, the average for the rest of the Part A States was below Rs 300.

The average amount of deposits per society was as low as Rs 408 and the average working capital per society was Rs 4,190. It may be noted that, for their finance, the majority of societies depend to a very great extent upon external sources.

Loan operations of primaries

7. The averages per annum given below relate to the amounts advanced (as a whole) by societies, or borrowed (individually) by members. These averages are of course no index to the proportion of co-operative borrowings to total borrowings from all sources, an aspect which is dealt with in the next chapter.

	Average amount advanced by society Rs	Average amount borrowed by member Rs
Bombay	8,222	105
Madras	4,383	50
Coorg	4,103	38
Punjab	2,186	49
Madhya Pradesh	1,941	108
Delhi	1,397	55
Travancore-Cochin	1,267	10
Madhya Bharat	1,197	54
Saurashtra	1,116	37
Orissa	998	29
Uttar Pradesh	943	29
Hyderabad	942	34
Rajasthan	797	38
West Bengal	712	29
PEPSU	704	26
Mysore	490	12
Ajmer	443	18
Himachal Pradesh	214	11
Assam	177	7
Bihar	135	5
Vindhya Pradesh	86	4

There is little specific provision for medium-term finance, e.g., to buy a bullock or purchase a pump. Moreover, few societies conform to those principles of co-operative finance which require (*a*) that loans should be matched to productive purpose, and repayment to fufilment of purpose, (*b*) that, consequently, repayment should not be out

of further borrowing but from genuine savings or out of annual earnings, and (*c*) that, as a further consequence, repayment—if necessary in instalments—should be so timed as to be convenient from the point of view of incomings. The picture which emerges is the strikingly different one of an arrangement whereby the borrower is in effect allowed a limited permanent advance which is based on the security of his land and which he usually carries over from year to year. There is little or no relation between credit and purpose and, therefore, little or no observance of the distinction between short-term and medium-term loans. Sometimes, when the administration happens to be insistent on compliance with the formal proprieties, it is not unknown for devices to be adopted such as plausible 'book' adjustment, or temporary 'repayment' followed by immediate re-borrowing, in order to make it appear that loans are being repaid annually. These and other considerations must be kept in mind for a realistic appraisal of the 'overdues' position of the primary co-operative societies. For all India, the percentage of overdues to outstandings was 25 in 1951-2. For Madras it was 24 and for Bombay 25. In some of the other instances the percentages were: 91 for Vindhya Pradesh, 49 for Assam, 44 for West Bengal and 41 for Bihar.

The Agricultural Finance Sub-Committee has noted as follows:

> " One of the chief defects of the co-operative system is the delay in obtaining loans from societies. In some areas, a member has to wait from one to two months after applying for a loan before he can actually get it. At times, an agriculturist requires money at short notice, especially for current agricultural needs; if the society cannot accommodate him, he is perforce driven to a moneylender. We appreciate that some time is necessary for the scrutiny of applications, but much of the delay appears to us to be avoidable."[1]

Many factors contribute to the delay: (*a*) inadequacy of owned capital and consequent need to wait for funds from the central financing agency, (*b*) multiplicity of stages through which loan applications have to pass, (*c*) inefficiency of the co-operative *panchayat*, often amounting to inability to get the application forms properly filled in, (*d*) consequent need to await the arrival of the supervisor, who is busy elsewhere with one or another of a number of similar societies under his charge, and (*e*) dependence on the supervisor, not only for filling in forms, but for specifying credit limits, recording sanction of loans and writing up accounts.

Multi-purpose societies

8. A noteworthy trend is the enlargement in function of the primary agricultural credit society. Where such a society performs one or more functions besides the disbursement of credit, it is called a 'multi-purpose' society. In recent years, as the result of a deliberate policy on the part of some State Governments, there has been a large increase of multi-purpose societies. Ideology and necessity have both, at different stages, induced adoption of the policy. Co-operative thought, seeking ways out of the relative stagnation of co-operative credit, came to recognize that members' economic and even social needs were not put away into and then brought out from a number of separate compartments; they made up a living and composite whole. The primary form of co-operative organization, it was argued, should respond to the basic fact that credit was one of a number of

[1] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 49.

important and interrelated needs. Only by attempting to subserve all, or as many as possible, of those needs could co-operative credit itself hope to survive and progress. The ' multi-purpose ' idea was thus born, the term itself theoretically covering all gradations of the enlargement of purpose from the simplest stage, when just one more function is added, to that degree of co-operative development when all or almost all the important aspects of the socio-economic life of the individual member are taken within its purview by the multi-purpose society. Broadly speaking, enlargement of function (where this has actually taken place and not just remained on paper) has tended to remain at or near the simplest stage, a fact which has to be borne in mind in interpreting the statistical expansion of the multi-purpose type of primary co-operative society. The necessity which, along with the ideology, has been contributory to this expansion was that concerned with the war-time distribution of controlled goods including essentials such as food and cloth, a task with which State Governments more or less suddenly found themselves faced. In the discharge of this task, co-operatives were one of the distributive agencies selected by State Governments. The consequent growth of this type of co-operative organization and business is illustrated below, for some of the States for which the data are available, by figures pertaining to the beginning and the end of the war period:

(Rs in lakhs)

State	Year	No. of multi-purpose societies	Membership	Working capital	Purchase of goods	Sale of goods
Uttar Pradesh ..	1940-1	2,214	57,269	28.5	0.9	1.4
	1945-6	6,692	1,48,271	80.4	1 7	2.0
Bombay	1940-1	70	3,476	1.9	0.3	0.7
	1945-6	264	20,925	24.6	11.3	64.5
Madhya Pradesh ..	1940-1	14	1,370	0 4	0.005	0.03
	1945-6	104	10,745	3.1	5 3	7.8
Bengal	1940-1	33	44,228	1.3	0.7	0 3
	1945-6	218	76,898	22 8	11.2	159.2

The further expansion of the multi-purpose form of society achieved between 1946-7 and 1951-2 is indicated by the following figures:

(Rs in lakhs)

	Year	No. of societies	Membership	Working capital	Purchase of goods	Sale of goods
All-India	1946-7	9,650	3,44,512	178.43	79.13	212.08
	1951-2	39,930	21,42,905	1333.71	2260.96	2785.96

It is necessary to note that Uttar Pradesh accounts for the majority of these societies. Thus, in 1951-2, out of a total of 39,930 multi-purpose societies for all-India, Uttar Pradesh had as many as 24,302.

9. The distribution of primary credit societies between the two types of 'liability' under which they are constituted—well known as 'limited' and 'unlimited'—is indicated by the following figures :

Liability

Year	No. of agricultural credit societies with limited liability	No. of agricultural credit societies with unlimited liability
1949-50	28,126	75,953
1950-1	29,189	75,809
1951-2	30,904	77,021

The distribution for some of the States is as follows:

State	1951-2	
	No. of societies with limited liability	No. of societies with unlimited liability
Bombay	2,090	7,790
Madhya Pradesh	2,496	5,601
Madras	99	16,616
Punjab	—	7,706
Uttar Pradesh	24,302	2,991
Hyderabad	123	4,242
Mysore	1,269	1,313
Travancore-Cochin	323	840

Unlimited liability is the orthodox Raiffeisen principle which has, till recently at any rate, been the guiding principle of departments in India in their official mission of organizing co-operative credit. The theory was that collective and unlimited liability would not only provide a suitable basis on which loans could be obtained by those who had little or no tangible security to offer, but also, and in a real sense, induce a feeling of collective responsibility among members and, as a corollary, initiate a live process of careful business management, continuous vigilance and mutual supervision. In practice, little of this has materialized. The Co-operative Planning Committee observe: "In most Provinces, however, unlimited liability has not been very helpful to the progress of co-operative credit. . . . In most Provinces the trend of thought is in favour of limited liability. We recommend, therefore, that, except where unlimited liability has produced good results, the liability of the reformed and reorganized primary society should be limited . . . . There may, however, be cases in which unlimited liability is more appropriate. For instance, the adoption of limited liability may prevent the benefit of co-operative credit being derived by persons of small means who have no tangible security (which the limited liability society will usually demand) to offer for loans. Similarly, for societies which cover only one village and do not contain multiple functions, unlimited liability may be more suitable."[1]

[1] *Report of the Co-operative Planning Committee*, 1946, pp. 23-4.

II. LONG-TERM AGRICULTURAL CREDIT: CENTRAL AND PRIMARY LAND MORTGAGE BANKS

Land mortgage banks

10. At the end of 1951-2 central land mortgage banks were functioning in six States, viz., Bombay, Madras, Mysore, Orissa, Travancore-Cochin and Saurashtra. In Orissa, Travancore-Cochin and Saurashtra, there are no primary land mortgage banks; the central land mortgage banks deal direct with the borrowers. Further, the activities of the central land mortgage bank in Saurashtra, which was set up in September 1951, has hitherto been confined almost exclusively to the channelling of funds put at its disposal by Government for giving loans to tenant-cultivators to enable them to take advantage of the provisions of the Saurashtra Land Reforms Act, 1951. A central land mortgage bank has also come into existence in Hyderabad in the early part of 1953.

The following particulars pertain to the operations of central and primary land mortgage banks in India in 1951-2:

	Central land mortgage banks	Primary land mortgage banks
Number	6	289
Membership		
Individuals	34,175	2,13,814
Banks	404	—
	(Rs in crores)	(Rs in crores)
Debentures	7.83	0.09
Working capital	10.17	7.59
Loans issued during the year	2.51[1]	1.30
Loans outstanding at the end of the year	8.05	6.96

[1] This amount includes Rs 1.27 crores disbursed direct to members by the Saurashtra Central Co-operative Land Mortgage Bank.

Land mortgage banking has made little progress in India. Whatever development there has been is largely confined to Madras (including Andhra). Out of a total of 289 primary land mortgage banks, as many as 130 were in Madras; and out of a total of Rs 250.65 lakhs advanced as loans by the central land mortgage banks, Rs 82.84 lakhs or 33 per cent were accounted for by the (undivided) Madras Co-operative Central Land Mortgage Bank. More than half of the States are without a single land mortgage bank.

Loans given by land mortgage banks are predominantly for discharge of prior debts and redemption of mortgages. The following table gives the purpose-wise classification of loans from land mortgage banks in some of the States selected for the Survey.

State	Amount lent for this purpose as per cent of the total amount lent: Repayment of old debts	Improvement of land[2]	Purchase of land	Two or more of the preceding purposes
Mysore	100	—		
Madras	95	1		4
Madhya Pradesh	59	14	3	24
Bombay	49	20	18	13

[2] Loans given for digging of wells, purchase of machinery, tractors, etc., have been included in this group.

(Rural Credit Survey)

Land mortgage banks may have a fairly efficient machinery for the valuation of land (as in Madras and Andhra), but even so be completely lacking in the machinery for co-ordinating their loan policies with that of a programme of land development in one or more areas. Thus they have little or no specialized staff for assessing the technical soundness of schemes and inadequate supervising staff for verifying that schemes are in fact being executed. State Governments possess such a machinery, but proper co-ordination between State Governments and land mortgage banks in this particular is almost always lacking.

One of the criticisms levelled against land mortgage credit is the delay involved in getting it. Some of this is implicit in the processes of scrutiny of title and valuation of land, but some of it is quite easily avoidable. Our suggestions on this point will be found in Chapter 36.

The following table shows the 'frequency distribution' of loans of land mortgage banks in some of the States surveyed, in relation to the time-lag between the date of application and date of sanction:

State	No. of loans/amount sanctioned after this time-lag between date of application and date of sanction as per cent of the total number of loans/amount sanctioned							
	Up to 3 months		3-6 months		6-12 months		Above 1 year	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Bombay[1] ..	45	41	27	24	19	26	9	9
Madras ..	18	17	31	30	32	35	19	18
Madhya Pradesh	4	3	21	21	39	48	36	28
Mysore ..	12	13	14	17	41	38	33	32

(Rural Credit Survey)

[1] Data for three of the selected districts are not available and are, therefore, not included.

A study of the loans advanced by land mortgage banks in the undivided Madras State reveals that, in the pre-war years, loans of Rs 5,000 and below constituted 75 per cent of the total amount disbursed as loans. After the war, there has been an alteration in the pattern of distribution, much of which may be attributed to a change in the value of money, but which nevertheless underlines the need for a more positive policy in favour of the medium and small agriculturist. The percentage of loans up to Rs 5,000 has fallen to 63, the change being largely due to decline in the volume of loans up to Rs 1,000 which now form only 6.2 per cent as against 23 per cent in the pre-war period. Loans between Rs 1,000 and Rs 3,000 continue to be popular, and account for 34 per cent of the total as against 47 per cent in pre-war years. Loans above Rs 5,000 constituted 37 per cent of the total as against 25 per cent in the pre-war period. It is true that small loans are not economical from the point of view of the bank and that the cost of administration has mounted in recent years. It is at the same time essential that the needs of the medium and small cultivators should receive considerably more attention than they get at present.

Borrowers from land mortgage banks are required to repay loans in equated annual instalments over a series of years, usually 15 or 20. Different periods are not prescribed

for different types of loans. This is an outcome of the long-standing practice under which the loans given are predominantly for clearance of debt. There is every reason why loans for land improvement (e.g., for purchase of tractors, pump-sets, oil engines, etc.), should be given for shorter periods based upon the probable life of the machinery or equipment. When the borrower himself may want the loan for a shorter period and can demonstrably repay it within such period from income on increased production, the prescription of a uniformly long period for all types of borrowers is obviously inexpedient and imprudent.

Land mortgage banks as a rule find it difficult to raise adequate long-term funds for their operations. Even though guaranteed by the State Governments, their debentures have only a limited market.

Finally, central land mortgage banks and state co-operative banks not only remain legally, financially and administratively distinct, but make little or no effort to co-ordinate their activities.

III. PROGRESS AND RECORD

A. VIEWS OF RESPONDENTS

(i) *Lack of a sympathetic attitude on the part of central financing agencies to the small borrower*

Indifference

11. An officer of the Co-operative Department of a Part A State, where the co-operative movement is relatively undeveloped, is of the opinion that the apex bank and the central banks are indifferent to the interests of the ultimate borrower to whom they owe their existence. An experienced non-official respondent from another Part A State, where the Movement is relatively well developed, draws attention to the disinclination on the part of central banks to finance certain types of societies, especially those for tenants and field labourers who do not have adequate tangible assets.

(ii) *Inadequate coverage and insufficiency of finance provided*

Inadequacy

12. An officer of the Co-operative Department of a Part A State, where the Movement is relatively well developed, points out that the primary societies admit only about 20 per cent of the total population of the village for various reasons including the limited credit accommodation available from co-operative central banks.

The same opinion is expressed by an experienced non-official respondent from the same State; in his view, the amount of finance provided by co-operatives is insignificant. " The major source of finance for agriculturists lies elsewhere. There are the local banks which finance middle and big landowners, the local big landowner, the urban trader in commercial produce who gets credit from wholesalers who are financed by commercial banks, the *nidhis*, the chit funds, and the Marvadi moneylenders who lend on pledges." He makes a pointed reference to the disabilities of the small borrower in these terms :

> " . . . The small owners, tenants-at-will and labourers, the cultivators of areas of poor rainfall and the backward agricultural communities are hardly members of societies. Generally, the upper ten per cent of landowners are *panchayat* members

and much will depend on the latter for the credit to flow to the landless and small owners. Where a single community dominates, loans will be larger in extent among them. In canal areas, the richer peasants may lend at a lower rate of interest than that of the society, among themselves. . . . The central bank lends only up to one-eighth of net assets, barring certain special loans on pledge of produce. To inflate the assets, these persons [members having property] are found to be essential. . . . This policy has resulted in indifferent leadership, or abuse of leadership for one's own benefit and in rare cases to serviceable leadership. It is hard to put on the shoulders of the rich and influential in a village the responsibilities of management. They think that their service ends by lending their names. . . . *Panchayat* leadership does not look favourably on admission of tenants-at-will and agricultural labour as members. Honorary secretaries find that it increases work by way of disbursement and collection of small loans while the profit is little."

The same respondent mentions various causes for the ineffectiveness of the primary credit societies :

> "Smallness of area, unlimited liability, honorary service of the *panchayat*, all these militate against building an efficient rural co-operative bank with high standards of administration which alone will improve a member's loyalty and the *panchayat's* responsibility. . . . Supposing a cultivator wants a loan and he deserves it. Whose is the responsibility to make credit available at his door ? The *panchayat* in a large number of villages may not take the initiative, but may leave it to the supervisor. Unless, therefore, a person of the latter type is made the secretary of the society, the credit service may not spread. There is a common attitude that responsibilities of honorary service are different from those of paid service. This is the main cause of *panchayat* inefficiency. Delay in sanction of loans is one result. . . . Weak *panchayats* take two kinds of assistance from a supervisor, i.e., clerical and administrative. The initiative in calling for loans and recovering them passes, as a result of slackness, to the supervisor. An agriculturist waits for the advent of the supervisor to request for a loan. In such villages, the nominal authority is the *panchayat* while the real authority is the supervisor."

A marketing officer of a Part A State points out that even though, on an average, there is one co-operative society for every two villages in the State, the Movement has not made much progress. The main obstacle, among other things, is the principle of 'credit-worthiness' as it operates in practice. According to him, the full demand of the borrower is not generally met and many (such as tenants whose number is not small in the State) are excluded altogether as not being 'creditworthy'.

Viewing the problem from a different angle, the district officer of a Part A State where the Movement has been stagnant for some years is of the view that the reorganization of co-operative finance has received some stimulus from the operation of the Reserve Bank's scheme of accommodation. Among the chief defects of the Movement mentioned by a knowledgeable respondent from a Part A State is the existence of an ill-paid, ill-trained and inadequate staff. He adds: "[The] political parties are trying to extend their hands." Another respondent points out that societies are sometimes formed on the initiative of some influential persons for their own needs. Meetings, according to him, are not often held and supervisors have sometimes to write the minutes of the phantom proceedings.

(iii) *Liability of the primary credit society*

13. Divergent opinions have been expressed about the question of the liability of the primary credit society. Most of the respondents from a Part A State where the Movement has not made much progress are against the system of unlimited liability which, according to them, has made it difficult for a good many of the solvent agriculturists to join the Movement. One respondent has cited the example of his district where on account of the replacement of the system of unlimited liability by limited liability the membership is now claimed to be not less than 50 to 55 per cent of the total residents.

Liability

(iv) *Multi-purpose societies*

14. An officer concerned with planning in a Part A State points out that the policy of starting multi-purpose societies on a large scale has resulted in a number of activities being taken up in a haphazard manner.

Multi-purpose functions

An officer of the Co-operative Department of another Part A State expresses the opinion that the most striking organizational defect of rural primaries is the so-called broad-basing of their activities. He says that the multi-purpose activities which these societies are expected to handle are beyond their financial, intellectual and administrative resources.

A knowledgeable respondent from another Part A State is of the view that the total volume of business is not the criterion for judging multi-purpose co-operative societies. In his view, a correct assessment will be possible only if we have data about the number of families in the area and their short-term and medium-term requirements of credit ; the quantity of produce marketed and how much of it is sent by the members to the sale society ; the quantity of supplies needed and how much of it is supplied at present by way of consumption goods and agricultural requisites and whether there is a supply society; and whether there is any scheme of cottage or other industries to engage the spare time of agriculturists.

(v) *Long-term credit and land mortgage banks*

15. An experienced observer from a Part A State where land mortgage banking has developed more than in any other State comments that " land mortgage banks never touch the main agricultural population. They cater to rich and big agriculturists, some of whom are only absentee landowners renting out lands."

Land mortgage banks

B. ASSESSMENT BY COMMITTEES

16. In 1915, when the co-operative movement in India was only ten years old, the Maclagan Committee said that no one " can fail to be struck by the magnitude which the growth [of primary societies] has already attained or to be convinced that the Movement has taken firm root "[1] ; but in the course of its summing up the Committee also remarked: " We regret to have to say that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking generally,

[1] *Report of the Committee on Co-operation in India*, 1915, p. xv.

even allowing for the backwardness of the population, there has been found a lack of true Co-operation."[1]

In 1928, after more than a decade of further expansion, the Movement came under the review of the Royal Commission on Agriculture in India which, after dealing with the good and the weak points of its working, made the following observations :

> " . . . Few things have struck us more forcibly in the course of our enquiry than the comparative failure of the Movement in some Provinces; it is, of course, true that defects are apt to be more prominent than successes and we fully appreciate the undoubted fact that in every Province, there are outstanding examples of benefits accruing from the application of the co-operative principles to local problems. Our examination of the Movement has however convinced us that the necessity for a high standard of efficiency in work . . . is not everywhere sufficiently realized. . . . It has been made clear to us in some Provinces that the Movement does not inspire confidence amongst workers in allied fields and no small part of the disinclination to make use of it has been due to its internal defects."[2]

The Indian Central Banking Enquiry Committee, which reported in 1931, referred to some of the recommendations and conclusions of the Royal Commission on Agriculture on the co-operative movement. Some of their observations are given below :

> " . . . The reports received from the Provincial Committees do not show that the financial position of the primary societies has deteriorated in any way since the Royal Commission reported. On the other hand, in almost all Provinces, it is reported that the rapidity of expansion of the Movement has been suspended with a view to consolidate and rectify the progress already made.[3] . . . It is not, however, denied that there are several defects in the working of the Movement, some of them of a grave nature. . . . The Royal Commission on Agriculture, which as already stated, took stock of the situation as recently as 1928, also pointed out that the 'members of societies delay the repayment of loans even when able to repay; understanding of the principles of Co-operation and knowledge of the essentials of rural credit are lacking; office-holders refrain from taking action against defaulters . . . Even where defects are obvious and admitted, there is reluctance, as dangerous as it is regrettable, to liquidate societies whose condition is beyond remedy.' The Provincial Committees substantially endorse these observations, and these defects are more or less common to the working of the societies in all Provinces. The feature of overdues and its evil effects are specially emphasized by the Provincial Committees[4] . . . One of the weaknesses of co-operative finance is said to consist in its inelasticity, dilatoriness and inadequacy. Almost all the Provincial Committees have adverted to this weakness in the organization and more or less admit its prevalence. One result is that the cultivator who is a member of a credit society has to resort frequently to the money-lender as well for accommodation.[5] . . . In order that the system should work properly, it is essential that a co-operative society should eliminate all differences in

[1] *Report of the Committee on Co-operation in India*, 1915, p. xvi.

[2] *Report of the Royal Commission on Agriculture in India*, 1928, pp. 473-4.

[3] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, p. 130.

[4] Pp. 132-3. [5] P. 136.

the status of the members and avoid the danger of the control becoming concentrated in the hands of some powerful interests, a tendency which is noticed in some places and commented on by some of the Provincial Committees. The emergence of these phenomena in the working of the central banks necessarily leads to undesirable results such as the over-financing of societies to keep up dividends, the maintenance of high interest on deposits and the receipt of superfluous deposits with a view to providing remunerative and safe investments to the controlling interests, and interference in the working of the primary societies in the matter of sanctioning loans. The same phenomena in the primary societies tend to the interests of the small producer being neglected in favour of his more powerful colleagues."[1]

For an account of the record of the co-operative movement a few years after the depression of the thirties, we may turn to the Statutory Report of the Reserve Bank of India (1937). The following is an extract from the Report :

" With regard to the co-operative movement in India it is possible to quote an imposing array of figures about the number of societies, their membership, working capital, loans, etc. These figures, however, do not reveal the real state of affairs and a closer scrutiny shows that the position is far from satisfactory in some of the areas. The figures for the British Indian Provinces for the year 1934-5 . . . show that the number of agricultural societies was 78,253, but about one-third of them were classified as D or E which means that they were not working properly or were on the verge of liquidation. . . . Since share capital in primary societies may in certain cases consist only of an inflation of the loans granted to members, it is doubtful how much of it represents real savings. . . . The loans outstanding against members amounted to about Rs 24.5 crores of which Rs 10.75 crores were shown to be overdue."[2]

About a decade later, the Agricultural Finance Sub-Committee (1945) made the following observations on the record of the co-operative agency :

" . . . co-operative banking organizations in all the Provinces are not equally strong. In some, e.g., Bihar, part of the co-operative structure had to be completely re-built, in others, the organizations are still weak or are in the process of rehabilitation[3]. . . . the development of the co-operative superstructure is very different from Province to Province and its strength varies from even district to district in some Provinces.[4] . . . the role of the co-operative movement in the supply of agricultural finance was very small as compared to the needs of the country and that part of it which could be considered as efficient was smaller still. In many of the Provinces, the Movement was in difficulties in spite of the rise in prices of agricultural produce. . . . A large number of societies are faced with the problem of frozen assets and have stopped functioning wholly or in part.[5] . . . Co-operative land mortgage banking in India is not much developed except in Madras. . . . This development is very small as compared with the requirements of long-term finance of the country which are also likely to be considerably increased during the post-war period."[6]

[1] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, pp. 138-9.

[2] Pp. 12-13.

[3] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 34.

[4] P. 43. [5] P. 47. [6] P. 53.

Subsequently, in 1946, the Co-operative Planning Committee stated that the main causes for the limited progress made by the co-operative movement in India were " the *laissez-faire* policy of the State, the illiteracy of the people and the fact that the Movement did not, especially in its initial stages, take the life of the individual as a whole. Amongst the other causes are the small size of the primary unit and undue reliance on honorary services for even day-to-day work with resultant inefficiency in management."[1] Reference may also be made to the *Report of the Economist for Enquiry into Rural Indebtedness* (Madras, 1946) which states that " despite four decades of its existence, co-operative credit has only touched the fringe of the problem of rural finance and the reign of the private moneylender is still unaffected if not unchallenged."

For a passing, but recent, assessment of the record of co-operative credit and banking, we may refer to the Rural Banking Enquiry Committee (1950) which said:

> " From this brief review, it is apparent that a sound and satisfactory co-operative banking structure exists only in a few regions, particularly in Bombay and Madras. The structure elsewhere is in a process of reorganization, consolidation or rehabilitation and it is as yet too early to say what the outcome of the efforts now being made will be."[2]

Present position of co-operative credit

17. The Rural Credit Survey not only confirms many of the above observations as still true of Co-operation in India, but also reveals that the place occupied by co-operative credit in the rural finance of the country is even more insignificant than ordinarily supposed. Organizationally and financially, there has, at the apex level, been considerable expansion in the recent past; even so, the central banks still remain weak and largely unco-ordinated; but the weakest link of all in a chain which is weak at almost all points is the primary co-operative credit society. It satisfies none of the requisites of either good Co-operation or sound credit. Its failure to promote thrift and savings is followed at not too great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt and productive. Even in the two States in which co-operative credit may be said to be less ill-developed than elsewhere, viz., Bombay and Madras, the Survey reveals that a disproportionately large share of the benefit goes to the big and large cultivators.

These remarks, which are primarily with reference to short-term credit, also apply to medium-term and long-term agricultural credit. The former is still a big lacuna everywhere. The latter—apart from Madras and Andhra which contain the beginnings of development—is practically undeveloped in India. To certain promising features of the recent past we shall refer in Chapter 36 in the context of recommendations. Those apart, it may be said of the land mortgage banking system of India that, at its best, it raises inadequate funds in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development; acts as if prior debts, and not production, had prior claim on its attention; reaches mainly the large cultivator and reaches him late.

[1] *Report of the Co-operative Planning Committee*, 1946, pp. 11-12.

[2] *Report of the Rural Banking Enquiry Committee*, 1950, p. 18.

CHAPTER 19

RECORD OF CO-OPERATIVE AGENCY (II): ASSESSMENT OF PERFORMANCE

Introductory

An account of the co-operative agency has been given in the last chapter in the light of its development over half a century and of the position it has now reached in structure, finance and operations. The purpose of this chapter is to assess the main operations of co-operative credit as pertaining to a system of rural finance, and to find out if possible whether there are any features of the system itself, as it has developed, which may be responsible for the deficiencies of performance revealed by the assessment.

A word of explanation is necessary in regard to the statistics used. The General Schedule of the Survey covers a period of 12 months which in part falls in the 'co-operative' year 1950-1 and in part in the 'co-operative' year 1951-2. For verification and confirmation, therefore, the Survey data have to be broadly correlated to the 'co-operative' data for 1950-1 and 1951-2 to the extent these latter are available in the compilations of the Agricultural Credit Department (A.C.D.) of the Reserve Bank of India. Such correlation, wherever possible, is attempted in assessing 'performance' in this chapter. Apart from this, however, the data used are largely those of the Rural Credit Survey.

As a system of credit, the co-operative agency performs two main 'operations': It obtains funds for granting loans and it grants loans. In the structure of co-operative credit, as we have seen it in the last chapter, these two functions tend broadly to be divided between the primary credit society on the one hand and the apex and central financing agencies on the other. It is mainly the primary credit society which lends to the cultivator; we may, for our present purposes, ignore the somewhat exceptional instances in which apex or central banks lend direct to individual agriculturists. The funds on the other hand are in large part obtained as deposits and loans by apex banks and central banks; the primary credit society depends on these to a substantial extent, for its deposits are relatively limited. It follows that, in a brief examination such as this of co-operative credit, attention has to be mainly directed to (i) the primary level when considering the system as one of providing loans to the cultivator and (ii) the central and apex levels when considering the system as one of mobilizing resources and (since agricultural credit is not the only function at those levels) of deploying the total resources in a manner which does not deprive agriculture of its due priority. These two aspects are dealt with in the two sections which follow. For obvious reasons, more attention is devoted to the first.

I. THE SYSTEM OF CO-OPERATIVE CREDIT: PROVISION OF LOANS TO THE CULTIVATOR

Loans to cultivators: Bombay's leading position

2. The first point to notice is the relatively small percentage of cultivating families which borrow from co-operatives, even after allowing for the fact revealed by the Survey that, taking all classes of cultivators together, the families which borrow from any agency at all are only 58.6 per cent of the total number. The following table gives the relevant percentages for different classes:

Type of cultivator	Proportion of families which reported borrowings from any agency	Proportion of families which reported borrowings from co-operatives
	Per cent	Per cent
Big	56.7	5.1
Large	59.4	4.5
Medium	60.7	3.3
Small	55.1	1.9
All cultivators	58.6	3.2

(Rural Credit Survey)

These are all-India figures. The variations between States are interesting. The following table indicates, by relative and absolute figures, the extent of borrowings from co-operatives in each State:

State	Number of families which reported borrowings from co-operatives as percentage of the total number of families interviewed	Amount borrowed from co-operatives	
		Per family	As percentage of the total borrowings of all families from all agencies
	Per cent	Rs	Per cent
Bombay	8 3	28.2	16.2
Uttar Pradesh	4 9	4.3	2.2
Punjab	3.7	8.8	4.2
Madras	3.2	8.9	2.2
Madhya Pradesh	2.9	5.4	3.1
Madhya Bharat	2.6	4.8	2.4
Hyderabad	1.9	1.9	0.9
West Bengal	1.5	1.7	1.3
Orissa	1.3	2.3	2.7
Assam	0.2	0.6	0.5
Bihar	0.1	0.1	0.1
Mysore	0.1	0.0	0.0
PEPSU	0.0	0.0	0.0
Vindhya Pradesh	0.0	0.0	0.0
Rajasthan	—	—	—

(Rural Credit Survey)

Bombay leads with 8.3 per cent as the proportion of families borrowing from its co-operatives. The next highest percentage is 4.9 per cent for Uttar Pradesh. In terms of quantum of co-operative credit, absolute and relative, Bombay is even further ahead of the other States. A family in Bombay gets on an average more than Rs 28 from the co-operatives; whereas, no other State reaches even Rs 9 per family (Punjab and Madras are Rs 8.8 and Rs 8.9 respectively). As for proportion of co-operative credit to total borrowings, Bombay's record is 16.2 per cent; the next highest is Punjab with 4.2 per cent; Madras and Uttar Pradesh, lagging much behind with 2.2 per cent each, are more typical of a number of the remaining States; the hindmost group comprises Hyderabad, Assam, Bihar, Mysore, PEPSU and Vindhya Pradesh in which the percentage is less than one or even so negligible as to figure as ' nil ' in the general averages.

The position in regard to certain main types of borrowings, period-wise and purpose-wise, is shown below separately for each such item; the data are given in respect of Bombay, Punjab and Madras:

Purpose-duration	Amount borrowed from co-operatives for this purpose-duration as per cent of total borrowings of cultivators from all agencies for this purpose-duration (all-India) Per cent	Amount borrowed by cultivating families from co-operatives as per cent of their total borrowings from all agencies		
		Bombay Per cent	Punjab Per cent	Madras Per cent
Agricultural				
Short-term		42.1	5.9	1.2
Long-term[1]	2.4	5.0	2.0	2.2
Non-agricultural				
Short-term	0.5			
Long-term				
Consumption				
Short-term	2.2	7.9	8.2	3.3
Long-term	0.9	2.9	2.7	0.8
Repayment of old debts	8.7	21.5[2]	1.3	13.3
Other purposes	2.4	12.5	0.3	2.9

[1] Including, in this context, medium-term.
[2] Borrowings for this purpose were reported only in one of the districts. (Rural Credit Survey)

Bombay's lead in credit for short-term agricultural production (42.1 per cent of total borrowings as compared with 5.9 in Punjab and 1.2 in Madras) is here revealed as even more impressive than that indicated by the previous table, for there all types of credit were averaged out. The average short-term agricultural borrowings from co-operatives amounted to Rs 18.7 per cultivating family in Bombay, Rs 1.2 in Punjab and Rs 0.9 in Madras. Further, Bombay retains the lead in co-operative agricultural credit for consumption as well as for the items classed ' other purposes '.

Resort to other agencies

3. A brief reference may be made to another aspect. The Survey data for the upper 50 per cent of the selected cultivators show that the cultivating families which resort to co-operatives as well as other agencies for meeting their credit requirements are, in terms of percentage of the

total number borrowing from co-operatives, about 88 in Madras, 75 in Punjab and Uttar Pradesh, 49 in Madhya Pradesh, 44 in Bombay and 14 in West Bengal. The position is almost similar in regard to the lower 50 per cent of the cultivators in these States. These figures must be considered along with those on page 230 which indicate the amounts and percentages of co-operative credit actually available in each State. It is noteworthy that even in Bombay (in which the average amount is the highest reached, viz., Rs 28.2), as many as 44 per cent of the upper 50 per cent of cultivators who borrowed from co-operatives have to resort to other agencies as well for meeting the balance of their requirements. In Madras and Punjab this percentage is even higher, being 88 and 75 respectively. But the fact that the percentage is only 49 in Madhya Pradesh and 14 in West Bengal does not of course mean that the cultivators are better off in these States in respect of co-operative credit. That is far from being the case, since the average amount borrowed from co-operatives is only Rs 5.4 in Madhya Pradesh and Rs 1.7 in West Bengal. It would appear that in certain regions the cultivator gets little credit not only from the co-operatives but even from the moneylender.

High percentage of 'dormant' primary societies

4. Several of the primary credit societies studied in the course of the Survey were 'dormant'; they were found not to provide even a modicum of credit. Out of the 777 agricultural credit societies studied, 665 were in villages and 112 in taluka places or marketing centres. Out of the 665 societies in the villages, about 161 (or 24 per cent) had not advanced any loans during 1949-50 and 1950-1. The proportion of dormant societies to the total number of primary credit societies in the villages studied varied from State to State as shown in the following table:

State	Proportion of societies which had not advanced any loans during 1949-50 and 1950-1
	Per cent
Bhopal	100
Assam	85
Orissa	58
Mysore	53
Bihar	52
Rajasthan	45
West Bengal	44
PEPSU	37
Travancore-Cochin	36
Himachal Pradesh	30
Madhya Bharat	22
Hyderabad	22
Uttar Pradesh	16
Madras	9
Bombay	3
Punjab	3
Madhya Pradesh	2

(Rural Credit Survey)

It is also interesting to note that, among the 504 active credit societies in the villages, 312 were single-purpose both in name and in practice, 94 were multi-purpose in name but single-purpose in practice, only 58 were multi-purpose both in name and in practice, while a residuary 40 were single-purpose in name but were carrying on a few miscellaneous activities in addition to credit. It may be mentioned in this connexion that, out of 76 so-called multi-purpose societies studied in Uttar Pradesh (a State which has achieved the most striking numerical increase in this type of society), as many as 54 (or nearly three-fourths) were in reality single-purpose.

Co-operative credit and ownership of land

5. If we now consider the loan operations of the primary credit society, several points emerge which are of significance. Foremost is the basis of credit, i.e., the security against which the primary agricultural credit society provides loans to its members. While, in theory, co-operative credit is *personal* credit based upon the character and the repaying capacity of the cultivator, the Survey data reveal that, in actual practice, a high proportion of the advances in many States is against the security of immovable property:

State	Percentage of advances given by agricultural credit societies against the security of immovable property to total advances
	Per cent
Hyderabad	88
Bihar	78
Madhya Bharat	77
Bombay	76
Madhya Pradesh	72
West Bengal	68
Travancore-Cochin	62
Assam	53
Mysore	43
Madras	36
PEPSU	30
Uttar Pradesh	3
Orissa	2

(Rural Credit Survey)

Bias of co-operative credit towards big and large cultivator

6. The second most noteworthy feature is one to which reference has been made more than once in previous contexts, namely, that the class-wise distribution of co-operative finance is preponderantly in favour of the large cultivator—as compared with the medium and the small—and, among large cultivators themselves, predominantly in favour of the big cultivator:

Type of cultivator	Average value of owned land per family	Average size of sown area per family	Amount borrowed from co-operatives per family	Amount borrowed from co-operatives as percentage of the total borrowings from all agencies	Proportion of families borrowing from co-operatives
	Rs	Acres	Rs	Per cent	Per cent
Big .	12,951	26.0	21.0	4.0	5.1
Large	7,521	16.9	13.5	3.8	4.5
Medium		6.8	4.7	2.7	3.3
Small	1,059	3.0	1.9	1.7	1.9

(Rural Credit Survey)

A significant point which may be noted is that, whereas the average borrowing from co-operatives per family in the case of big cultivators was Rs 21.0, the relevant figures in the case of the medium cultivator and the small cultivator were only Rs 4.7 and Rs 1.9. Part of the explanation is to be found in the tendency we have noticed for co-operative credit to be based on land as the main form of security. Moreover, as we shall see later, at the present stage of its own development and even more so of the development of co-operative marketing, Co-operation hardly shows any cognizance of produce from land, as distinguished from the ownership of land, as an appropriate basis of credit. Another factor which tends to bias the system in favour of the big and large cultivators is connected with 'consumption' finance. The medium and small cultivators are, proportionately, in more need of 'consumption' credit than, with their greater resources, are the big and the large. This is borne out by the following table:

Type of cultivator	Proportion of borrowing for family expenditure to the total borrowings from all agencies
	Per cent
Big	37.2
Large .	41.2
Medium	49.5
Small .	59.8

(Rural Credit Survey)

If the co-operative credit system in most States shows a bias against consumption credit on the ground that its primary preoccupation is ' productive ' finance, then, to that extent, the system is bound to be automatically biased in favour of the big and large cultivators. This is exactly what has happened in practically all the States: not helped with credit for subsistence till the harvest, the medium or small cultivator has necessarily to turn from the co-operative society to other agencies of credit, and that agency is usually the ubiquitous moneylender who does not mind whether his loans are for consumption or for any other purpose. We have here the curious position of co-operatives departing from co-operative principle, where security is concerned, by adopting ownership as the basis instead of personal character and repaying capacity; and of their adhering to principle where the exclusion of ' consumption ' as a purpose of credit is concerned. What is noteworthy is that, in either case, the result is a bias of the co-operative credit system towards the big and the large and away from the medium and the small.

Non-insistence on purpose

7. We have, in the preceding chapter, dealt with another implication of the co-operative emphasis (as it has developed in practice) on ownership of land as basis of credit. This has been the emergence, as a result, of a system of ' limited advances ' based on security of land and related to its value, though not always proportionate to it since an upper limit to the advance is dictated by the shortage of available funds. This limited advance is then carried over from year to year and becomes in effect a ' limited permanent advance'. It is unrelated to any productive purpose such as materializes for the cultivator in his annual harvest. That being so, the loaning system inevitably tends to neglect periodical recovery from the periodical income of the borrower; in fact, in view of the nature of the security, no real need is felt for such recovery. The system also divorces itself from need to stipulate, much less supervise, any productive purpose. This we have already considered in some detail. We may here deal with the last point, namely, supervision. A comparison of the data given by the primary agricultural credit societies with those furnished by the cultivator shows that, in several States, only a small proportion of the total amount lent by the societies was reported to have been lent for ' family expenditure', even though the cultivators reported that the larger portion of their borrowings from co-operatives was for this particular purpose. The data strongly support the suspicion that the purposes for which co-operatives gave loans were in many instances not those for which the cultivator utilized the borrowed amount.

Summing up of features

8. To summarize some of the features so far noticed in this chapter and the foregoing one, it would appear that the system of providing loans to the cultivator at the level of the primary credit society is characterized by: insistence, in many States, on a form of security which results in credit aligning itself to ownership of property; indifference to recovery, the failure to recover in turn leading to low turnover of funds; inattention to purpose, productive or other, and failure to relate recoveries to production ; consequent on all these, both a tendency to be complacent about supervision and, in actual fact, a very large lack of supervision; and, necessarily, the mounting up of overdues to which reference has been made in the previous chapter. All these are major features which, during the last fifty years, have established themselves in the system of co-operative credit. That the system as it has actually developed is not the same as the system that was designed by those who originally established it in India, or even the same as that which was

still hoped for by those who reviewed it at different stages, is of course very true. But that is a point which raises the whole question as to why design and development have so diverged from one another in the record of co-operative credit in India. The question is one which we will take up in a subsequent chapter. Meanwhile, the fact remains that the system, as it now operates in regard to purpose and supervision or recovery, turnover and overdues, is not a system of credit which is likely to attract funds on its own merits and in the normal course of business. Moreover, the system of loaning, as it now prevails at the primary stage, is such that it has no large scope for utilizing the funds available at the higher levels of the structure in a manner which implies sound, purposive and equitable disbursement of credit. Much improvement even within the present framework, though not within the present practices, is undoubtedly possible. Whether apex and central banks, with or without such possibilities, are for their part giving due priority to co-operative *agricultural* credit is a point which we will subsequently examine. Meanwhile, it is clear that at the primary base of that credit also reside its primary defects as a system of rural finance.

Bombay and Madras

9. That being the general picture, it is all the more necessary to examine why in Bombay alone, relatively though not in absolute terms, both the volume and the coverage of co-operative agricultural credit are strikingly large. A comparison between Bombay and Madras should be particularly significant. Both of them are usually regarded as well developed in the co-operative sense; and both of them certainly have well-administered co-operative departments. But the comparison perhaps stops there. Madras is 'orthodox' from the co-operative point of view. That is to say, in the principles of the Movement, as in the practices which now dominate the system, co-operative credit in Madras runs true to old pattern. Bombay, on the other hand, especially since 1948-9, has been experimenting with a system of 'crop loans'. This, perhaps, cannot be said to be unorthodox; in fact, it may even be regarded as a going back from present co-operative practices to original co-operative principles. But what is 'unorthodox' in Bombay Co-operation is mainly the other development which has taken place in the form of State participation, both direct and indirect, in the finances and organization of co-operative credit.

Certain figures relating to the advances in the two States may first be given:

Advances granted by primary agricultural credit societies

(Rs in crores)

Year	ombay	Madras	All-Indi
1946-7	1.70	3.47	9.03[1]
1947-8	2.22	4.40	10.45[1]
1948-9	3.29[2]	4.96[3]	14.04[1]
1949-50	5.29	6.44	17.99
1950-1	6.90	7.65	22.90
1951-2[4]	8.12	7.33	24.21

(A.C.D.)

Figures are approximate.
Data for 1948-9 and for subsequent years include those for merged areas.
It is not clear whether the figure includes data for merged States also.
Excludes grain banks.

It will be seen that, whereas the advances made by primary agricultural credit societies in Bombay increased from Rs 1.70 crores in 1946-7 to Rs 8.12 crores in 1951-2, those made by primary agricultural credit societies in Madras increased from Rs 3.47 crores in 1946-7 to Rs 7.33 crores in 1951-2. Further, while in 1946-7, the advances given by agricultural credit societies in Bombay fell short of half of those in Madras, the advances granted by such societies in Madras in 1951-2 were lower than those in Bombay. These figures may be studied in relation to the size of the rural population in the two States.[1]

Loans advanced by primary agricultural credit societies per 1,000 rural families

	Bombay	Madras
	Rs	Rs
1946-7	5,690[2]	4,132[2]
1947-8	7,322[2]	5,191[2]
1948-9	7,679	5,744
1949-50	12,158	7,390
1950-1	15,639	8,702
1951-2	18,161	8,256

(A.C.D.)

It will be seen from the above table that the loans advanced by primary agricultural credit societies in Madras in 1951-2 per 1,000 rural families came to Rs 8,256 which was only a little higher than the figure of Rs 7,679 representing the loans advanced by primary agricultural credit societies in Bombay in 1948-9.

In this connexion, it may be noted that a very large proportion of the total advances of co-operatives in the selected districts of Bombay was for short-term agricultural purposes. As will be seen from the table on page 231, whereas in Bombay 42.1 per cent of the total borrowings of cultivators for short-term agricultural purposes was from co-operatives, the corresponding figure was only 1.2 per cent in Madras. Further, 62.7 per cent of the borrowings from co-operatives were reported by cultivators of selected districts of Bombay to have been for short-term agricultural purposes as compared with 9.1 per cent in Madras.

[1] Taking agricultural credit societies and their membership in the two States, it is seen that the average amount borrowed per member was Rs 50 in Madras and Rs 105 in Bombay ; the membership of agricultural credit societies per 100 rural families was 16.6 in Madras and 17.5 in Bombay (See Chapter 18).

The average amount advanced per rural family by primary agricultural credit and primary agricultural non-credit societies together, was Rs 10.4 in Madras as compared with Rs 31.4 in Bombay (Source: A.C.D.).

[2] Due allowance for variation as a result of merger has been made.

The analysis made in the previous paragraphs may be read in conjunction with the following data relating to the districts selected for the Survey in Madras and Bombay.

	Borrowings per 1,000 rural families from all co-operative agencies	Average amount borrowed by cultivating family from co-operatives		Proportion of cultivating families borrowing from co-operatives
		Per family	As percentage of total borrowings from all agencies	
	Rs	Rs	Per cent	Per cent
Madras				
Chingleput ..	1,060	2	0.5	0.5
Coimbatore ..	8,670	18	3 7	4.6
Cuddapah ..	5,800	7	1.6	3.6
Kurnool ..	13,190	18	3.9	3.3
Malabar ..	2,250	3	0.7	1.4
Ramanathapuram	930	1	0.7	0.5
W. Godavari	10,480	18	3.1	10.0
Weighted average for the State ..	5,100			
Bombay				
Ahmedabad ..	14,170	22	6.0	4.3
Bijapur ..	8,400	11	5.5	4.9
Broach ..	57,430	96	31.6	21.2
Kolhapur ..	18,470	21	21.4	14.9
Poona ..	27,550	39	20.4	7.1
Ratnagiri ..	3,310	4	9.5	1.8
W. Khandesh	33.820	56	21.0	13.1
Weighted average for the State .	20,200			

(Rural Credit Survey)

Crop loans in Bombay

10. These figures speak for themselves. It is clear that Bombay has recorded very much quicker progress than Madras during the last few years, and that this period has, in Bombay, also been one in which the crop loan system has been sought to be gradually established in deliberate replacement of the older pattern in which creditworthiness and ownership are more or less interchangeable. The system of crop loans has been in different stages of experimentation since 1939 when the Bombay Agricultural Debtors' Relief Act was first introduced and it received an impetus when the revised Act was extended to the entire State in 1947. This period saw the emergence of a class of 'adjusted' debtors who could not alienate their lands without the consent of the debt adjustment boards and who therefore found it difficult to obtain credit from the usual sources. Government then came forward with a scheme under which it agreed to provide a guarantee against losses up to 5 per cent and to bear the entire cost of supervision of co-operatives which were expected to be the main agencies for the supply of crop finance.

The system of crop finance assumed new significance when in 1948-9 the co-operative credit movement in the State was reorganized with the active support of the co-operators of the State. Under the new arrangements, the reorganized Bombay State Co-operative Bank and central financing agencies, together with the primary credit societies, were expected to provide short-term finance to all creditworthy agriculturists. Instead of fixing credit limits on the basis of landed security, special attempts were made to provide

short-term finance on the basis of crop acreages and to link the time of repayment to the harvesting season. This important new responsibility, viz., of financing all credit-worthy agriculturists in the State, was not one which the co-operative banks of Bombay just acquiesced in; it was fully and deliberately accepted by them as both appropriate and inevitable if co-operative credit was to play its due part in planning and development.

In connexion with this new set-up, reference may be made to the Government contribution to the share capital of the Bombay State Co-operative Bank and also to the central banks through the State Co-operative Bank. Such contributions as on 30 June 1953 amounted to Rs 26 lakhs (representing 43.3 per cent of share capital) and Rs 6.75 lakhs (representing 31.0 per cent of share capital of the central financing agencies concerned) respectively. Further, the Government also agreed to subsidize the uneconomic branches of the central financing agencies, especially those opened in the relatively undeveloped areas.

Since the new arrangements came into operation, there has been a very noticeable increase in the short-term loans provided by co-operative agencies. The progress made is illustrated by the following figures which relate to the short-term advances made by the Bombay State Co-operative Bank in areas where its branches are functioning as central financing agencies:

(Rs in lakhs)

Year	Number of societies from which amounts were outstanding to the bank at the beginning of the year	Loans made during the year	Repayments during the year
1948-9	1,436	68.98	54.19
1949-50	1.549	102.49	79.67
1950-1	1,802	164.55	120.54
1951-2	1,985	219.31	162.98
1952-3	2,468	217.00	177.43

Special mention may be made of the loans given for certain crops like potatoes and sugar-cane. It may be noted that an essential part of the scheme of crop finance is the ascertainment of crop acreages and the adoption of these as the basis of credit limits. The quantum of sugar-cane loans, for example, is related to the type of irrigation available and the method of cultivation; it varies from Rs 300 to Rs 800 per acre. The approximate area of sugar-cane crop for which finance was provided by the Bombay State Co-operative Bank in 1952-3 was 23,300 acres for which loans aggregating Rs 56.75 lakhs were sanctioned. Further, intermediate-term loans are also being made available by central financing agencies for purposes such as purchase of bullocks and small implements, petty repairs to wells, etc., repayable within three years. According to the latest data available, the total amount of intermediate-term finance provided by central banks was, however, only Rs 51 lakhs.

It is not our intention to suggest that Bombay is by any means the last word on either the design or the operation of the crop loan system. Indeed, so far as we know, that is far from being the case; and the system itself, if determinedly pursued, has a dynamic implication which perhaps the Bombay co-operators have only just begun to

realize. We shall revert to implications and reactions in a later chapter. Our purpose at this stage is merely to draw attention to the fact that the only State in which significant progress has been made in both volume and coverage of co-operative agricultural credit is also the one State in which a system of crop loans has been introduced and, along with it, the need for State participation has not only been recognized but also translated into practice by a reorganization of the co-operative credit structure of the State at the apex and central levels, with the State Government as an important partner in the financial structure and an effective participant in the policies of business and risks of operations.

II. THE SYSTEM OF CO-OPERATIVE CREDIT: MOBILIZATION OF RESOURCES AND PRIORITIES IN THEIR DEPLOYMENT

Resources of the co-operative credit system

11. The resources of the co-operative credit system and the observed priorities in their utilization may now be considered with special reference to the apex and central banks. The following table indicates the total resources, and their composition at the different levels, including the primary level:

Working capital of co-operative credit (short-term) institutions

(All-India : as on 30 June 1952)

(Rs in crores)

Source	State co-operative banks		Central banks and banking unions		Primary agricultural credit societies[1]	
	Amount	Percentage of total working capital	Amount[2]	Percentage of total working capital	Amount	Percentage of total working capital
Owned funds (share capital and reserves)	4.26	11.6	9.81	16.3	17.67	39.1
Borrowed funds:						
Loans from						
Co-operative banks ..	0.02	0.1	10.62	17.7	22.67	50.1
Commercial banks	2.51	6.8	1.00	1.7	—	—
Government	1.81	4.9	0.29	0.5	0.48	1.1
Reserve Bank	6.85	18.6	—	—	—	—
Others	0.08	0.2	0.15	0.2	—	—
Deposits from						
Co-operative banks ..	3.85	10.5	0.91	1.5	—	—
Primary societies	4.54	12.4	10.58	17.6	0.19	0.4
Individuals and other sources	12.80	34.9	26.75	44.5	4.21	9.3
Total working capital	36.72	100.0	60.11	100.0	45.22	100.0

[1] Excluding grain banks.

[2] Borrowings from the Reserve Bank are shown as part of the working capital of the state co-operative banks.

(A.C.D.)

Of the total working capital of the primary agricultural credit societies, which is Rs 45.22 crores, more than 50 per cent consists of borrowed funds. Deposits constitute as little as 9.7 per cent of the total. The owned funds, i.e., share capital and reserves of the societies, amount to Rs 17.67 crores and are about 39 per cent of the working capital. Further, the working capital of the primary agricultural credit societies in Bombay, Madras and Punjab accounts for more than 67 per cent of the total working capital of all such societies in the country.

The total working capital of the central financing agencies was Rs 60.11 crores. Here again, Bombay, Madras and Punjab together account for the larger part (71.6 per cent) of the working capital. Borrowings from co-operative banks (mostly the apex banks) constitute 17.7 per cent of the working capital, while deposits account for 63.6 per cent. Out of the total deposits with central banks amounting to Rs 38.24 crores, only Rs 10.58 crores (of which less than Rs 2.13 crores pertain to agricultural credit societies) were from primary societies. As much as Rs 26.75 crores were from individuals and other sources.

One point to note about the state co-operative banks is that as on 30 June 1952 nearly a fifth (18.6 per cent) of the total resources consisted of accommodation from the Reserve Bank. More than a third (34.9 per cent) was from individuals and other sources.

Allocation of funds

12. As we have pointed out, it so happens that the apex and central banks are the financiers, not only of co-operative agricultural credit, but also of certain other types of co-operative activity, though the fact of course remains that, both in origin and development, their most important function is that of financing agricultural credit societies. It is therefore of importance to consider how the limited funds at the disposal of apex and central banks are actually deployed by them, and whether agricultural credit gets the priority it ought to. In considering this aspect, we have also of course to bear in mind, besides the question of priorities, a point we have already referred to in connexion with the primary structure, namely, the ability of the various types of borrowing agencies, in their turn, to lend properly, purposively and effectively.

The following figures for 1951-2 may be seen:

(All-India)

	(Rs in crores)
Advances of state co-operative banks	55.27
Advances of central banks	105.64
Advances of primary agricultural credit societies	24.21

(A.C.D.)

There is, thus, a very large difference between the fresh advances of apex banks and central banks on the one hand and primary agricultural credit societies on the other. The apex banks, it is interesting to note, do considerable financing of traders, merchants and other individuals; in fact, 12.4 per cent of the total fresh advances of all state

co-operative banks in 1951-2 were given to individuals, who may be presumed in most States to consist largely of traders and merchants; it has, however, to be added that in a few instances (e.g., Bombay) the 'individuals' are relatively big agriculturists admitted to direct membership of the state co-operative bank. The amount advanced to individuals, as percentage of total advances, was as high as 74 in Madhya Pradesh. It was 30 in Hyderabad.

As for central banks, though only 6.6 per cent of the total advances by all such banks in India had been given to individuals, the percentage was very high in some States. For instance, the amount advanced to traders, merchants and other individuals, as percentage of total advances, was 52 in Rajasthan, 50 in Madhya Bharat, 39 in Madhya Pradesh and 25 in Hyderabad.

Figures relating to the fresh advances made by central banks to various types of societies are available only for Madras. The total amount so advanced was Rs 44.75 crores in 1951-2. Out of this, only Rs 7.66 crores or 17.1 per cent was advanced to rural credit societies, as will be seen from the table below:

	Total loans and advances (including cash credits) made by all central banks in Madras State (1951-2)	
	Amount (in crores of rupees)	Per cent
Individuals	0.48	1.1
Rural credit societies	7.66	17.1
Marketing societies	4.42	9.9
Co-operative wholesale stores	13.88	31.0
Primary stores	6.02	13.5
Weavers' societies	1.59	3.5
Others	10.70	23.9
Total	44.75	100.0

(A.C.D.)

Though the percentage was 17.1 for the State as a whole, it was much less, individually, for different districts. Thus, among the districts selected for the Survey, the percentage was as low as 2.5 in Malabar, 7.4 in Kurnool, 8.1 in Cuddapah and 9.2 in Chingleput.

The following table gives all-India figures, for different types of societies, of the outstandings of their loans from apex and central banks.

	Loans held by these institutions from apex and central banks			
	On 30 June 1951		On 30 June 1952	
	Amount (in crores of rupees)	Percentage	Amount (in crores of rupees)	Percentage
PRIMARIES				
Agricultural				
Credit	18.78	46.1	22.70	51.6
Non-credit	3.68	9.0	3.97	9.0
Non-agricultural				
Credit	3.95	9.7	3.51	8.0
Non-credit	3.39	8.3	3.48	7.9
CENTRAL NON-CREDIT SOCIETIES	4.12	10.1	4.95	11.2
STATE NON CREDIT SOCIETIES .	1.64	4.0	0.53	1.2
HELD BY INDIVIDUALS FROM				
Apex banks	2.03	5.0	1.83	4.2
Central banks	3.15	7.8	3.06	6.9
Total	40.74	100.0	44.03	100.0

(A.C.D.)

It will be seen from the above table that the total amount held by various types of societies and individuals from apex and central banks amounted to Rs 44.03 crores[1] out of which only 52 per cent (or Rs 22.70 crores) were held by primary agricultural credit societies. The rest was held by other types of societies. Special note may be taken of the fact that the loans held by individuals (who, as we have said, may be presumed to consist largely of traders and merchants) from apex banks and central banks together amounted to about Rs 5 crores forming 11 per cent of the total. In many instances, as needs hardly to be pointed out, these traders and merchants are the very same persons whose opposition adversely affects the development of co-operative marketing societies.

Further, non-agricultural credit societies consisting of urban banks and various other types of urban credit societies, held Rs 3.51 crores or 8 per cent of the total. In Mysore, 36 per cent of the total advances were held by non-agricultural credit societies as compared with 12 per cent held by primary agricultural credit societies. In some States, the proportion of advances held by primary agricultural credit societies was extremely low. It was as little as 8 per cent in Assam and 10 per cent in Travancore-Cochin. In Assam, 53 per cent was held by the central non-credit co-operatives. In Uttar Pradesh, 35 per cent of the advances held from apex and central banks were on account of central non-credit societies. Further, the larger part of the funds of the apex bank are lent to the U.P. Co-operative Development and Marketing Federation the activities of which, till recently at any rate, have to an appreciable extent consisted of trading in cloth, sugar, etc., a function which devolved on it in the context of the State distribution of controlled and other commodities.

[1] Exclusive of Rs 10.62 crores held by central co-operative banks from other central co-operative banks or from state co-operative banks, since the inclusion of this figure would amount to double counting.

13. In other words, only part, and nowhere near the bulk, of the resources of the higher financing agencies is utilized for financing agricultural credit societies. That the inadequate priority, which in effect—if not in theory or intention—is accorded to agricultural credit could not have been wholly due to the inability of the primary society to lend any more than it does at present is clear from the example of Bombay where, with the adoption of a new policy, it has been found possible to advance considerably more to the cultivator through the existing primary credit society. This, as we have seen, it has been possible for Bombay to do without effecting much reorganization at the primary level (as distinguished from the higher levels, at which reorganization had to be effected) and without any significant reorganization of co-operative marketing. If, for example, as the next stage in Bombay, there should also be considerable reorganization of the agricultural credit society at the primary level, coupled with similar strengthening and reorganization of the co-operative marketing structure at different levels, it seems clear that much greater progress will be possible in the manner and volume of disbursement of credit to the cultivator through the primary agricultural credit society. Such a development, if it did happen to be brought about in Bombay, would be the second stage of progress in that State. But no other State has so far attempted to reach even the first stage. And, meanwhile, even such modest resources as the co-operative credit movement possesses at the central and apex levels are largely employed otherwise than as accommodation to the primary agricultural credit society.

Low allocation to agricultural credit societies

CHAPTER 20

REPUTED CAUSES OF FAILURE

Introductory

WE would commence this chapter by reiterating our conviction that there is no real alternative to some form of co-operative association at the all-important rural base of agricultural credit. Further, we would affirm our belief that Indian co-operators and the Indian co-operative movement have, by specific individual achievements in the sphere of agricultural credit in many States, under handicaps which we shall presently analyse, demonstrated that, even at levels higher than the base, there is eventually no alternative more suitable than a co-operative form of credit organization. In making the latter statement, we distinguish between what may be broadly described as the qualitative and quantitative aspects of the record of the co-operative credit movement in India. The distinction is between significance and dimension; between the degree of promise for the future, discernible in success, however limited, and the extent of fulfilment in the past in terms of measurable success and failure. In either case, what is really important is to ascertain the nature of the relation between the record and the circumstances associated with it. Success, promise of success and the conditions on which these are dependent may be discerned in several instances of striking achievement in Madras, Bombay, Punjab, Uttar Pradesh and certain other States. Some of these instances have been cited in previous chapters. We shall have occasion to draw upon the experience of these States in the course of formulating the lines on which future policies may be shaped and future reorganization designed. The dimensional aspect of the total shortfall in achievement is not less important for the lessons it holds for the future. The attendant causes, including those which are usually mentioned in this connexion, are set out here and in Chapter 21. The analysis is pursued in Chapter 22 and our broad conclusions are there indicated with reference to the more fundamental reasons which, in our opinion, underlie the largeness of the frustration of co-operative credit in India.

Threefold inadequacy of co-operative credit

2. It is generally recognized that the development of the co-operative credit movement in India has been inadequate in three important respects. There are large parts of the country which it has hitherto not covered; even in those areas to which it has extended, there are large sections of the agricultural population which still remain outside its membership; and even if attention is confined to those who are members of co-operative credit societies, the large bulk of their credit requirements is met from sources other than co-operative. What is not as widely recognized is that the magnitude of this threefold inadequacy is such as to warrant, from the quantitative as distinguished from the qualitative aspect, only one judgement, namely, 'failure', on the fifty year record of the co-operative credit agency in this country. The data of the Survey confirm that no other description of the record would be appropriate.

3. For the inadequacy of co-operative credit, to the extent it is generally conceded, several causes are from time to time cited, some of which are so contradictory, mutually, as to cancel out one another. The causes more generally mentioned are non-economic, though recent findings of committees and individuals tend to lay more and more stress on the social and economic factors, especially the latter, as underlying the inadequacy of development. For example, the Co-operative Planning Committee (1946) says: " A brief mention may be made . . . of the limited progress that has been made by the co-operative movement in India. The main causes are, the *laissez-faire* policy of the State, the illiteracy of the people and the fact that the Movement did not, especially in its initial stages, take the life of the individual as a whole. Amongst the other causes are, the small size of the primary unit and undue reliance on honorary services for even day-to-day work with resultant inefficiency in management."[1]

Reputed causes of failure

A more detailed enumeration of the handicaps of the Movement, i.e., ' the extrinsic factors which have inhibited or retarded its optimum development ' is given in Dr E. M. Hough's publication *The Co-operative Movement in India*:

> " Poverty and malnutrition, the widespread indebtedness which in many Provinces tardy steps have been taken to relieve through debt relief legislation, the depressingly high percentage of illiteracy and the lack of business experience, uneconomic holdings and antiquated methods, inadequate transportation and storage facilities. the lack until recently of uniform standards of weights, measures and products, great price fluctuations, dearth of regulated markets, exploitation by moneylenders and middlemen . . . call for simultaneous attention, supplemented by far-seeing economic and social legislation. "[2]

The author adds:

> " Other weaknesses of the Movement have been the almost exclusive emphasis for so long on credit—though the pendulum is swinging now in the other direction —and the inadequate linking of credit with thrift and with other co-operative lines; the tying up of funds in long-term loans; the overdues problem; the frequent defects of management and shortcomings in the attitude and policy of certain central institutions. "[3]

Reserving some of the more important social and economic causes for examination in the two succeeding chapters, we may, for the present, consider such of the non-economic causes as usually appear in diagnoses of the lack of development of the Movement. These may be classified as structural and functional, in so far as they relate, respectively, to the organization and working of co-operative credit societies and banks; in addition, the low level of education generally, and the lack of training of co-operative personnel in particular, are two considerations which need mention if only because of the frequency with which they are put forward; and lastly, the degree of intervention by the State in the policies and working of the Movement is an item which often figures in discussions on the subject.

[1] *Report of the Co-operative Planning Committee*, 1946, pp. 11-12.
[2] *The Co-operative Movement in India* by Dr E. M. Hough, Oxford University Press, Third Edition, 1953, pp. 284-5.
[3] P. 303.

In their bearing on the structure of the credit society, two important aspects are the size of the society and the nature of the liability (limited or unlimited); while in regard to function and operation, one issue concerns the relative merits of single-purpose and multi-purpose societies and another relates to the degree of co-ordination between central co-operative banks and primary societies. The different views expressed on each of these subjects will be briefly illustrated below by extracts from authoritative or representative comments.

Size of the society

4. Concerning the size of the society, while the orthodox attitude is that expressed by the Maclagan Committee—" It is a good general rule that there should be one society to one village and one village to one society "[1] —the contrary view may be illustrated by the following observations which a co-operator[2] from Uttar Pradesh made at the Fifteenth Conference of Registrars of Co-operative Societies (1947): " I think one of the reasons why the co-operative movement has not made any great progress in this country up to this time is that the primary credit societies generally confine their activities to one village only. If we have rural banks of the type suggested, they will be able to take up other activities also. One of the chief difficulties in India is to find out suitable local men to run co-operative societies. There are a large number of villages where we cannot find any suitable men to run a society properly. Unless we have some local people really interested in Co-operation, our societies can never work efficiently without outside stimulus. So, if we have rural banks of the type suggested for two or three villages put together within a limited area, we can have a much greater possibility of finding out suitable men to guide and run the societies properly. Besides that, generally, small credit societies are not able to attract local deposits. If we have rural banks, a number of cultivators who have surplus money will, instead of burying their money underground, deposit it in these banks. And then the cost of management will also be greatly reduced."[3] Objecting to large-sized societies except as an experimental measure, a veteran co-operator[4] from Madras said at the same Conference : " It seems to me this proposal takes away the advantage we have got in having the village societies, where there is mutual knowledge, mutual contact and mutual supervision. . . . If three or four villages are going to be clubbed together for the purpose, will they do better ? The same sort of areas are going to be clubbed together. . . . Instead of two societies, we will have one society. Where is the manager going to come from ? It will be from the same area."[5] The chairman[6] concluded the discussion in the following words: " If I may take you back for one moment to our early days of Co-operation, you will find that we started with the very idea that is now adumbrated by those who want a society for a group of villages. In 1904, all the societies that were started were not for each village but for a group of neighbouring villages. Everyone of them was a failure, and had to be liquidated. Then we experimented with the other idea and that was to try and take all the people of one community of neighbouring villages and constitute them into one society. These were equally a failure although we expected that the

[1] *Report of the Committee on Co-operation in India*, 1915, p. 16.

[2] Capt. Dalip Man Singh.

[3] *Proceedings of the Fifteenth Conference of Registrars of Co-operative Societies*, 1947, p. 148

[4] The late Shri Ramalingam Chettiar.

[5] Pp. 148-9.

[6] Shri Pheroze Kharegat.

caste feeling would be so strong as to supply a common bond of unity. It was after experimenting with all these types that our predecessors came to the conclusion that the ideal to be aimed at is ' one village one society'. What I would suggest for the consideration of the Conference is that we might say that the area of operations of a primary multi-purpose society should ordinarily be the village. But the area of operation of the *mandi* trading society should cover all the villages from which the produce is brought to the *mandi*. However, in tracts where villages are very small or for other adequate reasons, there may be one primary society for more than one village."[1] Accordingly, on the area of operation, the following resolution was passed: " This Conference considered the note submitted by the Government of Madras regarding the reorganization of the primary credit unit as ' rural bank ' on limited liability basis and recommends (*a*) that the area of operations of a primary multi-purpose society should ordinarily be the village, (*b*) that in tracts where villages are very small there may be one primary society for more than one village, and (*c*) that the area of operations of a *mandi* trading society should cover all the villages from which produce is brought to the *mandi*."[1]

The differing views here quoted epitomize the controversy on this point. Our comment at this stage is that, while the size of the society is a matter of undoubted importance in the reorganization of co-operative credit (we shall revert to it in making our proposals), it cannot be regarded as by itself a crucial factor in explanation of the lack of progress of the credit movement.

Limited versus unlimited liability

5. On the issue of limited versus unlimited liability in its bearing on the record of co-operative credit, the latest stages in thought and controversy may be indicated in the words of the Agricultural Credit Organization Committee (Bombay, 1947): " The question [of liability] is a controversial one and reasons both for and against encouraging the unlimited liability basis of village societies can easily be put forth. The Raiffeisen model, which is current all over India, is from the co-operative point of view the correct one, but lately there has been a drift towards experimenting with limited liability. The recent tendency is reflected in recommendations of the last Registrars' Conference, which has endorsed recommendation No. 15 of the Co-operative Planning Committee about the basis of reorganized agricultural primary credit societies. The relevant recommendation of the Planning Committee reads as under:

" ' Where unlimited liability has been found to work successfully, no change in the liability of the primary society is called for.

" ' In most Provinces, however, unlimited liability has not been very helpful to the progress of co-operative credit and the trend of thought is in favour of limited liability. Therefore, except where unlimited liability has produced good results, the liability of the reformed and reorganized primary society should be limited either to the value of shares held by a member or to a multiple thereof, provided that a substantial part of the funds required by the society can be raised through share capital.

" ' There may, however, be cases where unlimited liability is more appropriate; such cases should be treated by the Registrars on their own merits and with regard to local opinion and circumstances.'

[1] *Proceedings of the Fifteenth Conference of Registrars of Co operative Societies*, **1947, p. 150.**

" Under these conditions, we would recommend that a free hand should be allowed to the agriculturists to form their societies either on limited or unlimited liability basis. If the large landholders want to have a limited liability society, they should be free to do so, but in such cases the requirements of the poorer classes should not be ignored."[1]

Multi-purpose versus single-purpose societies

6. The preference for the multi-purpose form of co-operative society, as distinguished from the society concerned only with credit, arose in circumstances which have been explained in some detail in Chapter 18. Neither the figures there given nor the instances of actual working of societies—single-purpose and multi-purpose—cited in Chapter 4 indicate that, from the point of view of credit development and in terms of the Movement as a whole, the type of 'multi-purpose' activity usually adopted by societies has made any difference that can be called significant.

On the issues of liability and purpose, it will suffice to note at this stage that, important as the considerations connected with them are for future reorganization, in neither is to be detected any real clue to the unsatisfactory progress of co-operative credit in this country.

Lack of co-ordination between central banks and primary societies

7. The other functional aspect we have referred to is the lack of co-ordination between central co-operative banks and primary societies. The following quotation from the *Report of the Agricultural Credit Organization Committee* (1947) is relevant as explaining the factors which are usually referred to when want of co-ordination is cited as one of the main weaknesses of co-operative credit. "An unhappy tendency, discernible so far only in a few banks, is the growing indifference of some of these institutions to the needs and the viewpoint of the village primaries. It has been noticed that the business which these banks are doing with the individual borrowers—very often traders—is almost as extensive as with the co-operative societies. Individual finance was allowed as the central banks had large surplus funds, and this business has enabled them not only to make profits, some of which could be used for the co-operative movement, but also to develop banking in areas, not covered by joint-stock banks. Some of these banks are, however, beginning to look upon their business with the co-operative societies (for which they were organized) as risky and unpleasant. This tendency has to be firmly curbed if the central banks are not to become useless for the purpose for which they were organized, and we hope that no considerations of autonomy of the co-operative institutions will be allowed by the Government or the co-operators to interfere with the fundamental need for seeing that the central banks perform the duties, for which they were organized, efficiently and whole-heartedly.

" The difficulty we have referred to above arises in case of those central banks where urban elements are predominant in the directorate, but occasionally a weakness of an equal danger develops in case of the banks where the rural elements have the upper hand. In the latter type of banks there is close harmony between the central banks and the rural societies, but often the management is not as efficient and as economical as it should be. Therefore, these banks occasionally spend on their management more than they should and have to maintain wide margins between the borrowing and the lending rates."[2]

[1] *Report of the Agricultural Credit Organization Committee*, 1947, pp. 16-17.

[2] Pp. 25-6.

A lack of co-ordination on the part of central banks with societies on the one hand and with apex banks on the other is a feature common to the working of the credit structures of many States, as has been briefly noted in Chapter 18. It is a feature which itself requires explanation, and we trust part of the explanation will be found in the ensuing chapters. Meanwhile, we may observe that it does not appear that it is defective structural organization or functioning, whether in the matter of co-ordination or in some other respect, which is at the root of the undeveloped state of co-operative credit. In quantitative terms, e.g., proportion of the total borrowings of cultivators met by co-operatives, some of the poorer records pertain to States that possess credit structures which are relatively well organized and well co-ordinated.

Lack of education and inadequacy of training

8. The general lack of education and the inadequacy of training are two features emphasized as very important by the Royal Commission on Agriculture who, after pointing out various defects of co-operative credit, observe : " For these disquieting conditions there are several causes, of which lack of training and of understanding of co-operative principles is the most important. The democratic principle is not so potent a force in checking abuses as is sometimes supposed. Members take insufficient interest in the working of their society; they exercise little restraint over their president and committee, and hesitate to evict from office an incompetent or dishonest neighbour. The office-holders, on their side, dislike incurring the unpopularity attendant on stringent action against recalcitrants and the recovery by legal process of overdue debts. The calculated inertness of the two parties all too frequently leads to stagnation and dissolution.

" The only remedy for these unsatisfactory conditions which appears to offer any sure prospect of success is the patient and persistent education in the principles and meaning of Co-operation of the members of primary societies by teachers competent to perform the task efficiently under adequate supervision."[1] Putting their faith in education and training, the Royal Commission add: " We have great hopes that many millions of peasant proprietors may be led to a better life through a sound co-operative movement; if this is secured, much else is brought within the bounds of attainment. If Co-operation fails, there will fail the best hope of rural India."[2]

Emphasizing the need for training co-operative personnel in the principles and methods of commercial banking, the Reserve Bank of India said in its Preliminary Report (1936): " We consider that whichever method is adopted there will be no permanent improvement unless there is a radical reform in the following important directions. In the first place, we consider that there should be more practical bankers among those in control in each Province. The disabilities under which the co-operative movement is at present labouring are possibly attributable to this deficiency more than to any other cause. It is also essential that the co-operative movement should be brought into closer contact with commercial banking. Local banking and business talent should, where possible, be utilized to a greater extent than it is at present; and the staff should be encouraged to study and make themselves proficient in commercial banking."[3] In its Statutory Report (1937) the Reserve Bank reiterated that the lack of training in commercial banking methods was one of the

[1] *Report of the Royal Commission on Agriculture in India*, 1928, pp. 449-50.

[2] P. 450.

[3] Pp. 32-3.

main causes of the unsatisfactory record of co-operative credit: " We should like at this stage to emphasize one most important principle, namely, that sound banking is the result not so much of banking rules as of good bankers. In addition to the large class of those with a hereditary training in banking, there is now a large and rapidly growing supply of young and active trained Indian bankers and nothing would be more helpful to the development of co-operative banks on banking lines than the recruitment of such trained staff to a far greater extent than in the past. We feel that several of the deviations from the orthodox banking path which have occurred in the co-operative banks and which have contributed to their present difficulties have been due to the lack of proper banking knowledge on the part of the staff and sometimes even of those entrusted with the direction of the Movement."[1]

While the level of education and the standard of training emphasized in the above extracts must undoubtedly be regarded as important factors in the situation, it seems hardly tenable to attribute to them the major responsibility for the lack of development of co-operative credit. Neither or both of these can explain, for example, why as little as 3 per cent of the total borrowings of cultivators is forthcoming from co-operatives, not only as an all-India average, but even in a relatively advanced State such as Madras. For more fundamental reasons we have to direct our search elsewhere.

Official sponsorship of the Movement

9. Official sponsorship of the co-operative movement in India is sometimes regarded as one of those features which explain the inadequacy of its record compared with what it has been able to do in other countries, especially of the West. The following remarks of a great authority on Co-operation, Sir Horace Plunkett, are noteworthy: " . . . the widely spread and numerously supported Indian Co-operative *Movement* would more accurately be called a Co-operative *Policy*. It was created by 'resolutions' (to all intents and purposes, laws) of the Central Government and has been administered almost wholly by the ablest civil service in the world. A huge posse now nearly all Indian, of registrars, assistant registrars, auditors and accountants, inspects, supervises, and largely controls the co-operative societies scattered over the continent. These societies are so predominantly for the purpose of credit that comparatively little attention has been given to the other co-operative objects and functions needed to bring the Movement into the co-operative category. It could not have been otherwise, since indebtedness and its relief is necessarily the primary purpose in view. All the talk about 'Indianization' and 'de-officialization' but leads to the general conclusion that Indian organizers will have to be trained gradually to build up an indigenous and spontaneous movement upon the foundations laid."[2] This is to be read in the light of the importance which Sir Horace Plunkett attaches to what he considers a fundamental principle of Co-operation, namely, " the immeasurably more effective value of organized voluntary action than of State assistance, however essential this might be . . . "[3] In contra-distinction may be recalled the opinion of the Co-operative Planning Committee to which we have already referred, viz., that one of the main causes of the limited progress of the co-operative movement in India is " the *laissez-faire*

[1] *Statutory Report*, Reserve Bank of India, 1937, p. 24.

[2] *The Co-operative Movement in India* by Dr E. M. Hough, Third Edition, 1953, pp. xxii-xxiii.

[3] P. xxii.

policy of the State". In the words of a leading Indian co-operator,[1] " the work so far done is not in any way adequate to the immensity of the problem. Nothing short of widespread State machinery will reconstruct the village and the villager. It is only when this objective has been achieved, to at least an appreciable extent, that voluntary efforts by the people themselves can make further headway with adequate grants and subventions from local boards and Government."

All that it would seem possible to say at this stage is that, in Indian conditions, larger State regulation than usual in Western countries has been found necessary in the initiation and sponsorship of the co-operative credit movement. That such sponsorship has itself been among the main causes of lack of development does not seem prima facie valid and is not a proposition which has found acceptance with Indian co-operative thought.

[1] The late Dewan Bahadur H. L. Kaji (quoted in *The Co-operative Movement in India* by Dr F. M. Hough, Third Edition, 1953, p. 287).

CHAPTER 21

ANALYSIS OF FAILURE (I)

THE features reviewed in the last chapter as 'reputed causes' of the failure of co-operative credit are, all of them, other than economic. The more fundamental causes of the failure are in our opinion economic and socio-economic. In other words, it is in the factors which condition the cultivator's economic activity and the social background against which the activity takes place that we believe will be found the real explanation for the great disparity between the dimension of performance on the one hand and expectation and promise on the other of co-operative credit in India. The administrative, structural and functional weaknesses and the educational and technical backwardness by which they are accentuated will then be seen to be subsidiary forms of symptom and ailment rather than the main disease itself. In this chapter are considered the more important of those forces and elements which have seriously inhibited the development of co-operative credit in this country.

Socio-economic causes

2. We may start by noting that studies of the relatively low progress recorded by the co-operative credit movement in countries comparable to India in the aspect of economic under-development point in some instances to the same conclusion as we have indicated, viz., the phenomenon cannot be satisfactorily explained in terms of the non-economic causes to which it is usually attributed. The following is reproduced from a paper published in 1951 by the Department of Economic Affairs of the United Nations:

Co-operative credit in under-developed countries

"There can be little doubt that the extension of co-operative credit organizations is an important factor in promoting the expansion of agricultural production by small farmers. Its absence is particularly felt in countries where the prospects of agricultural development in general are favourable and where a trend towards small-scale production already operates . . . In these conditions the lack of adequate credit facilities may be a major factor in preventing development.

"The possibilities of achievement by credit co-operatives should not, however, be exaggerated particularly in the conditions encountered in Asian countries. In India, China, South-East Asia and the Middle East, credit shortage is the effect of poverty as well as its cause; the high burden of debt incurred by small farmers and tenants is symptomatic of economic maladjustments which go deeper than the deficiencies of the credit system. In these conditions, a high level of farm indebtedness does not indicate a high level of investment; it results to a great extent from the habit of borrowing to finance consumption. . . .

"In South-East Asia, co-operative credit institutions have encountered great difficulties. The main obstacles to co-operative organization have been the extreme specialization on export crops in this region, and the great instability of world market

prices between the wars. In Burma and Indonesia, the credit co-operatives collapsed during the slump of the nineteen thirties. . . .

"The fact that the co-operative credit movement has made such limited progress, and that reorganization from the top is so frequently necessary, suggests that the causes of failure lie deeper than the administrative defects, such as lack of trained personnel, which are so frequently emphasized in official publications. They lie, as was emphasized at the beginning of this section, in the chronic insufficiency of the farmers' income and the consequent tendency of consumption to outrun production. In countries of subsistence agriculture, the mobilization of savings is impossible, if savings do not exist. In the countries producing crops for world markets, the risks of price fluctuations are great obstacles to the successful organization of credit co-operatives. It would appear that in these countries, the problem of credit cannot be solved in terms of reform of the credit mechanism alone, and that the extension of credit facilities to small farmers through the co-operative principle can only be successful if it is applied as part of a general programme of agricultural reorganization.

"No change in the machinery of credit-giving can be a sufficient remedy so long as consumption tends to run permanently ahead of production. The vicious circle of poverty, debt and high interest rates, can only be broken by measures which increase the productivity of the holding and lessen the rent and tax burden."[1]

These observations illustrate how unconnected with most of the reasons usually alleged may be the real causes of the failure of Co-operation as an agency of credit, and of economic development generally, in the view of those who have studied conditions which are not wholly dissimilar to those of India. We do not suggest that the analysis entirely fits Indian conditions or that the deeper factors relevant to this country do not go even beyond those enumerated in the extract. As will be seen later, it is our belief that there are certain unique features in the Indian situation which, in conjunction with some of the aspects mentioned by the United Nations experts, present not only a very big problem but also a specially complicated one for those in charge of the development of credit in this country.

For an analysis of the main factors, we may start with the aims of Co-operation in the village. These are tersely and strikingly expressed in what may seem a slogan, but is in fact a fundamental statement of co-operative and economic objectives, viz., 'better farming, better business, better living'. We may deal with each of these interconnected items in that order, remembering, however, that, of the three, 'better business' lies nearest to some of the more important contexts of credit and for the purpose of analysis, therefore, has to be much more fully explored than the other two.

I. BETTER FARMING

Better farming

3. Better farming may be interpreted as standing for better production in all its aspects, i.e., for everything connected with the proper development of the economic resources of the farmer. Thus, it includes legislative reform such as the modification of tenure, tenancy, rent, etc., in the

[1] *Selected Readings in Agricultural Credit*, International Conference on Agricultural and Co-operative Credit, 1952, pp. 72-5.

direction of individual incentives for better production; the reconstitution of the farm, by consolidation, as a better managed cultivating unit or, by co-operative farming, as a much larger one ; the creation of larger facilities for irrigation; the supply of better seed and manure ; the imparting of more efficient technology and, along with it, the making available of more effective implements ; and so on. Further, it includes the better use by the cultivator not only of his farm but also of his time. The latter implies the availability of subsidiary occupations such as cottage industries ; and here again there is need for better, cheaper and more plentiful raw material and better technique and organization. It will be seen that many of these items are such as require the planned initiative of the State as well as adequate finance from it. It is necessary to draw a distinction between what State intervention alone can effect and what the cultivator can do, or be taught to do, himself. Obviously, co-operative organization in the village, even if it did not suffer from many of the usual handicaps, would not by itself be able to take on most of the preliminary tasks involved in bringing about better production. Since better production, whether in farming, animal husbandry or cottage industries, is in many ways fundamental to the entire structure of the rural economy, it is obvious that in Indian conditions the village co-operator is at the very outset handicapped in regard to the range of co-operative development which it is within his power to effect. The position, in so far as the State's initiative is concerned, is undergoing rapid modification in that the reform of tenure and tenancy laws, the establishment of major and minor irrigation projects and the distribution of seeds and fertilizers, to mention only a few of the items that are relevant, are being undertaken by Governments, Central and State, on a much larger scale than hitherto. But the point to notice is that one of the three objectives of co-operative economic development, of which co-operative credit development is only a part, has until quite recently been not only outside the effective scope of the Indian cultivator's ability but, by and large, also outside the State's priorities, interests and activities except as limited and unco-ordinated features of policy.

II. BETTER BUSINESS

Credit and economic activity

4. We may now turn to the second objective viz., 'better business'. The cultivator is vitally concerned with two aspects of business viz., (1) credit and (2) the economic activity which follows production e.g., processing, storage and marketing. If he decides to transact any of these through a co-operative association, whether the village society or some larger co-operative organization, assuming that it is available to him, he soon finds—barring very exceptional instances—that neither the society nor the organization is even one-tenth as useful to him as the moneylender, the trader or the miller. The moneylender may stipulate a higher rate of interest than the co-operative, the trader pay a lower price, or the miller charge unduly for the services he renders. But the fact remains from the point of view of the cultivator that he is able to get from the moneylender a large enough loan for the sub-standard needs of consumption and production which he has to meet from time to time before the harvest. As for trader and miller—the latter, it may be noted, is often a trader as well in the commodity he processes—the cultivator finds that they too provide the much-needed facility of credit (besides that of marketing) either in the form of a loan, which incidentally ensures his selling his produce to them, or in the shape of an advance payment of purchase price. As pointed out in Chapter 7, agricultural processing is largely

in private hands, and the co-operatives have not, except in a very few instances, succeeded in entering this field. Thus, it is the private agency, by and large—moneylender, trader and miller—and not the co-operative that provides an essential facility, namely credit, to the cultivator on the strength of his crop or of his repaying capacity generally. Moreover, it is these rather than the co-operative marketing society that effectively hold open for him the door to the urban market.

Conditions of marketing

5. It is interesting to recall in this connexion the following remarks from the *Report of the Royal Commission on Agriculture in India* (1928):

"The agricultural departments in India have done much to improve the quality and to increase the quantity of the cultivator's out-turn, but it cannot be said that they have been able to give him substantial help in securing the best possible financial return for his improved quality and his increased out-turn. Except to a limited extent, where improved quality is concerned, they have regarded the problems connected with the marketing of his produce as outside their purview. The co-operative departments, again, have been too much occupied with their primary function of organizing credit to be able to devote much attention to these problems nor have they been sufficiently well equipped with the special knowledge required for dealing with them. It is only in a few instances that they have been able to give the cultivator material help in disposing of his produce. His interests have, therefore, in the main, been left to the free play of economic forces and they have suffered in the process. For he is an infinitely small unit as compared with distributors and with the consumers of his produce who, in their respective fields, become every year more highly organized and more strongly consolidated. It is their interest to secure from the producer the raw material they handle or acquire at the lowest possible price. Marketing is the sole business of the distributor whereas, from the point of view of the cultivator, it is apt to be regarded as subsidiary to production. The circumstances of the average cultivator in India favour this attitude. His farming is still largely of the subsistence type. His sales of produce are intermittent. His day-to-day concern is with production and upon this his attention must in the main be fixed. The traditional lore and inherited experience of his craft centre round the work on his holding; they are for the most part lacking on the commercial side of his business. Until, therefore, he realizes that, as a seller of produce, he must study the art of sale, either as an individual or through combination with other producers, it is inevitable that he should come off second best in his contest with the highly specialized knowledge and the vastly superior resources of those who purchase his produce."[1]

The Royal Commission also say:

"The most powerful obstacle in the path of rural development and the most crushing burden on the people is indebtedness. Where they are so bound to the moneylender that all their produce must be sold to him and all their purchases made from him; where the interest charges on the loans they take from him are such that they absorb what little surplus there may be and the enhanced return in a bumper year or from some improvement in seed or implements merely serves to stay the pace at which these charges mount up, it is hopeless to expect that they should lend a willing

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ear to the advice of the agricultural expert. Societies for purchase and sale are not for those whose every transaction must pass through the single channel of the village moneylender."[1]

We have illustrated by another quotation from the Royal Commission in the last chapter their view that education, training, etc., represented some of the more fundamental lacks as well as the more fundamental remedies in the context of the slow progress made by the co-operative credit movement in India. We may note in passing at this stage that this view may in part be legitimately attributed to what may be described as the *laissez-faire* attitude of the Royal Commission in regard to the role of private trade. That attitude is apparent in the following observations which they make :

" We wish to make clear, at the outset, the point of view from which we approach these problems. The aim of better marketing is not necessarily to displace any unit in the existing machine but to enable that machine to function to greater advantage. We have, therefore, no suggestions to offer which involve the elimination, root and branch, of the middleman. In the economic organization of the modern world, he fulfils essential functions and neither in India nor elsewhere is it possible to dispense with him. Collection and distribution and the accommodation of supply to demand between locality and locality are everywhere complicated and delicate processes which would be impossible of performance without the skilled services of those who spend their lives in the business. In no country are these difficulties greater than in India, where communications are often extremely bad and where production is in the hands of a large number of petty cultivators who, for the most part, lack both the financial resources and the necessary storage to attempt any regulation of their selling in accordance with the state of the market and whose produce, as marketed, leaves much to be desired both as regards purity and quality. The services of the middleman must be paid for and, on the whole, it cannot be said that the remuneration the distributor receives, especially in these days of increasing competition, is an unduly heavy one. . . .

" That abuses exist is, however, beyond dispute. For instance, when the primary collector, who acts also as a moneylender, succeeds in getting a cultivator into his grip, he is apt to use his advantage ruthlessly. In a later paragraph of this chapter, we shall describe certain practices that obtain in the markets proper, some of which amount to nothing less than common theft. Again, it is certain that there are various services of marketing and distribution performed each by a separate intermediary which, under an ideal system, might well be rendered by a single intermediary. Bad communications and chaotic conditions of marketing encourage a superfluity of middlemen. The pressure of life, too, particularly in the more highly populated tracts of the country, tends to operate in the same direction, since it drives men to seek a living, however insufficient and insecure, wherever opportunity offers. Apart from the organization of producers for the sale of produce, the most effective means of removing unnecessary middlemen are the provision of good roads, and the establishment of a sufficient number of well-regulated markets, easy of access to the cultivator. For the framing of a sound and comprehensive policy for improvement in marketing, exact knowledge of the methods of distribution applicable to any particular class of produce, including collection, storage, transport, and, where it exists, manipulation,

[1] *Report of the Royal Commission on Agriculture in India*, 1928, p. 445.

together with a detailed analysis of the price structure at every stage in the operation, is essential."[1]

One comment which may perhaps be made at this point, in view of its bearing on the lines of reorganization we shall later recommend, is that the reluctance of the Royal Commission to make suggestions not indeed for the 'elimination, root and branch, of the middleman' but even for reducing the power of private trade by confronting it with strong State-sponsored institutional competition is to a certain extent explanatory of the fact that the Commission are reduced to recommending better roads as the main means of emancipation from the trader and better education as the main means of emancipation from the moneylender. We say this without seeking to minimize the importance of either roads or education in a programme of rural rehabilitation.

Competition and opposition from private interests

6. The basic fact in the village, then, is the competition, virtually the opposition, which the co-operative credit society and the co-operative marketing or other society has to withstand from relatively powerful private agencies. It matters not, as a factor in this competition, that the co-operative purports to act for the benefit of the cultivator and has objectives not shared by the private agency. The ubiquity of this agency, its widespread network from village to town and city, and in particular, the financial strength which it derives from its connexions with some of the most powerful elements of the urban economy, are all of them important factors which place the co-operative society and organization at great disadvantage in comparison with it and render the competition between them wholly unequal and one-sided. The trader, who is also often the village moneylender, can deal with the trading agent, the town moneylender, the indigenous banker and the commercial bank and, where needed, get financial accommodation from one or another of them. The latter, in turn, can replenish their finances from the wholesale trade or the bigger commercial banks in the cities. In the subsistence, as distinguished from commercialized, tracts where the trading and commercial links of finance are absent, the private moneylender, for whom there is little or no competition at all to contend with (as we have pointed out in Chapter 16) is in an even more powerful position than elsewhere *vis-a-vis* the co-operative society. Few others, besides him, possess enough liquid resources to be able to lend; there are usually no arrangements for the remittance of cash such as might encourage the establishment of a co-operative bank; and the moneylender has connexions with other moneylenders or indigenous bankers in the urban areas to supplement his cash if he is so minded. In the face of this opposition, which in different areas (subsistence or commercialized) exists in different forms, but everywhere with strength which is more or less the same—a strength derived from the urban economy farther afield—the position of the co-operative society is that it can look up to Government for little else than administration, supervision and advice ; for financial resources, it has largely to resort to the central co-operative banks which in turn, as a form of federation of the societies lower down, reflect the financial weakness and generally the powerlessness of the societies themselves. The same comments usually apply to the state co-operative bank except in those instances in which it has a certain degree of additional resources by reason of the State Government's being a participant. The Reserve Bank at the top provides finance to both the channels—commercial and co-operative—which in this context may be regarded as

[1] *Report of the Royal Commission on Agriculture in India*, 1928, pp. 383-4.

ultimately, though in small part, reaching the cultivator. But, barring recent changes in policy, the Reserve Bank's accommodation is, among other things, related to the financial strength of the credit institutions which approach it for accommodation. Even in this respect, therefore, it is normally the commercial channel, which at several points feeds the trader and the moneylender, that receives the larger volume; whereas the co-operative channel gets, by and large, what its weaker financial structure warrants. The opposition, then, which the co-operatives face at their different levels—base, middle and apex—is from a private set-up of trade and finance which is not only much better organized in regard to its technical services but also much more adequately and powerfully financed from above. Financially and structurally, the one is a weak federation of weak units in which the poverty of the rural base is matched by the lack of strength of the urban apex, whereas the other is a strong, powerful and well-soldered projection from a relatively prosperous urban economy at the top into a rural sector of commercial activity and commercial domination at the bottom.

Inhibiting factors within co-operatives themselves

7. It is not the fact of this opposition alone, extremely important as it is, that explains the poor growth of co-operative ' business ', whether of credit or of processing and marketing. Within the co-operative sphere itself are elements—methods and practices of the system on the one hand and attitudes of mind of individuals on the other—which have hampered and vitiated the credit movement from within. Of the methods and practices, one of the most striking is that offered by the co-operative assessment of 'credit-worthiness' as it has developed over the years. Certain facts concerning this subject have already been mentioned in a previous chapter. We may here consider the broader significance of the practice as it has evolved. From character and repaying capacity, as judged by local knowledge and kept under review by local vigilance, co-operative credit, at a very early stage, gravitated to ownership and landed security. Co-operative practice has, by and large, persisted in this bias towards ownership as the criterion of credit-worthiness in spite of periodical exhortations to the contrary of which the following observations of the Agricultural Finance Sub-Committee constitute one of the latest:

> " We feel that it is not a wise policy to judge of the creditworthiness of the members, and ultimately of a society, chiefly by the value of immovable assets possessed by the members as is the practice in some Provinces. We are of opinion that in a co-operative society, the creditworthiness of a member should be assessed on the basis of his repaying capacity which in its turn will depend on his earning capacity and his surplus income. The basis of repaying capacity is also more appropriate in a programme of reconstruction and development. For, with such a basis, the credit of a member will depend on the extent to which he takes loans for productive purposes and brings about an increase in income and repaying capacity."[1]

This substantial deviation between co-operative principle and co-operative practice is only partly explained by factors such as the influence which the bigger landowner tends to wield over the rural society or the failure of honorary direction and supervision and the consequent need for Co-operation to look out for some more tangible form of security than character or capacity. The explanation is to be found in the pursuit of

[1] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 48.

the line of least resistance by rural societies, as well as by central and apex banks, which on the one hand have been powerless to compete against the private trader and the private moneylender and, on the other, have had little incentive to gear the system to the benefit of the landless tenant or of the medium and small farmer. The *panchayatdars* and secretaries of the primary societies, no less than those higher up in the structure such as the directors, managers and supervisors of central banks, tend in the majority of cases to look out for the least troublesome form of security as basis of creditworthiness, something which does not require a great deal of effort, supervision and organization. 'Character' and 'repaying capacity' having been eliminated for this reason, the broad alternatives for security are a saleable right in land such as ownership or the annual produce from the land. The landless tenant, however big, cannot offer land because he does not own any; he may be a protected tenant, but that is a right which under law cannot be alienated; or he may be an unprotected tenant, in which case he has usually nothing at all to offer with the exception of the produce of his land. But then there are good reasons for the cultivator not offering his future crop as security to the society or for his not fulfilling the promise even if he has offered it. In some instances, the reason is the pressing need for credit, in order to obtain which the potential crop has already been offered to and accepted by somebody else—the miller, the trader or the moneylender—long before the harvest. The main reason, however, in these as well as in the majority of other instances, is a basic need—one which is more important than just credit—namely, the need for effective access to the urban markets which, by and large, only the private trader today provides to the cultivator. The co-operative society does not satisfy either of these needs—credit and marketing—except in small fraction and except in relation to a small number of cultivators. So while the landless tenant, as also the medium or small producer generally, has usually only his still unharvested crop to offer as worth-while security, Co-operation for its part has little or nothing to offer in return. The private trader, because of the financial resources at his back, and the private moneylender-cum-trader, because of both resources and local knowledge at his back, are both in a position to offer the credit urgently required by the cultivator at the time he needs it and, what is more important, they are also able to provide the marketing arrangements (including processing, storage, etc.) which help the final disposal of his produce. It is therefore to them that the cultivator sells his crop or pledges it in advance either formally or informally. With more resources and the willingness to take more trouble, co-operatives should be able to provide finance in at least larger volume than at present in the form of crop loans based on acreage and the nature of the crop grown. A more radical improvement in the position would, however, be possible only if co-operative marketing is so efficiently organized that the produce of all members is channelled through the marketing society. But a development of this kind would be possible only when the financial and technical resources of the marketing society are such as to enable it (in conjunction with the credit society) to offer both credit and services on an adequate scale, the former in advance of the harvest, as the trader, the processor and the moneylender do, though not of course on the same usually extortionate terms. Co-operation as now organized from the bottom is unable to muster in adequate degree either type of resource, financial or technical. Unless it is enabled to do so, it will tend to look away from produce as security. Equally, it will continue to consider land and the guarantee of the landed as the most suitable and least troublesome form of security. We have here then a vicious circle in which powerlessness to compete with the stronger private interests vitiates one of the first principles of

Co-operation and further adds to the powerlessness. This coexistence of three important facts, viz., (1) the organic connexion between credit, marketing and processing, (2) the powerful urban-derived competition arrayed against co-operatives in each of these spheres, and (3) the weak rural-based structure of co-operative credit, provide in our view an important explanation why co-operative credit has by and large failed in this country.

Experience elsewhere

8. Difficulties of this type which arise from the fact that the development of co-operative credit on any effective scale can, ordinarily, only take place in co-ordination with that of co-operative marketing (and of co-operative processing to the extent it includes, as it very largely does in this country, the aspect of marketing), are shared in different degrees by other economically undeveloped countries, as distinguished from the more advanced Western countries:

" The organization of co-operatives for the improvement of marketing and for the provision of credit facilities forms the essential framework which small-scale farming needs, if it is to bring about better living standards and better methods of farming. Examples of successful achievement in co-operative marketing of farm produce abound in European countries . . . Co-operative marketing associations have been able to offer their members better prices than they can obtain by dealing through middlemen, by means of economies of large-scale marketing and more direct connexion between producers and consumers. They have been able to improve methods of distribution through standardization of product, and have been a great influence in promoting specialization of production.

" The success of co-operative organizations in Europe or in North America, however, is not a proof that such organizations can be introduced with the same degree of success elsewhere.

" So far as subsistence crop production is concerned, the difficulty in organizing marketing to local urban centres is that the surplus for sale produced by each farmer is so small that the cost of collecting produce is high, while the urban market is too small to offer much scope for large-scale economies in marketing.

" In the countries which produce for world markets and particularly in mono-culture countries, co-operative marketing organizations of small producers encounter difficulties of another kind. The prices of such crops are subject to great fluctuation, and locally organized societies cannot raise sufficient capital to bear the risks involved. Co-operative marketing for this type of produce has been successful in Burma, where co-operatives have improved the price obtained by the peasant producer by eliminating the broker, who stands between the producer and the mill. Elsewhere, marketing of export crops has made little progress. It is significant that though credit co-operatives for small farmers have made headway both in Egypt and in the Caribbean, such societies have not found it easy to extend their activity to marketing the main crop, except to a certain degree, in Jamaica. Co-operative marketing has been successfully organized for such crops when the impetus has come from the buyers' end, as, for example, in the case of the West African marketing boards, and the co-operatives then become part of a governmental agency. Such

an organization can undoubtedly benefit producers; but it is not a co-operative organization in the accepted sense of the term."[1]

Non-farm aspects of rural production

9. We have considered agricultural credit and marketing and, in its aspect of association with the latter, also agricultural processing. In the context of 'better business' have also to be taken into account items of industry which are ancillary to agricultural production or are otherwise part of the larger rural production. Agricultural processing figures here again; then there are dairying, livestock-breeding, etc., as aspects of 'mixed farming'; and there is also of course the whole range of cottage industries in the rural areas. Not only co-operative credit and marketing, but also co-operative processing, co-operative dairying, co-operative organization of cottage industries and several other forms of co-operative economic activity have to face the same unequal competition from private trade and finance which we have referred to in connexion with credit and marketing, and, in addition, from organized private industry including the bigger manufacturing concerns. The insignificance of co-operative development in the directions mentioned above has been indicated in some detail in Chapters 6, 7 and 8. In these spheres, no less than in those of agricultural credit and marketing, the retarded growth of co-operative activity has been inevitable in the context of the powerful rivalry of firms and individuals who, through immeasurably better resources and better organization, have for long been in undisputed command of all except a negligible part of the total activity. Here again, in the context of co-operative credit for these other activities, are noticeable the very same forces, derived from urban affiliations, as have so largely been responsible for the stunted progress of co-operatively organized agricultural credit. For, as indicated above, 'better business' for the several classes of cultivators implies better non-farm business in addition to better farm business, and the possibility of effectively organizing co-operative credit for the benefit of the particular type of business—farm or non-farm—depends upon the extent to which the latter itself is co-operatively organized; and neither non-farm business nor non-farm credit have much chance of mutually co-ordinated development—which is the only type of development possible—if private marketing and private finance are the preponderant factors in the situation. To expect the weaker rural producers by co-operative combination among themselves to organize credit societies that can stand up to this opposition, and then to expect that co-operative 'credit' so organized will by itself help effectively to promote co-operative 'business' in the wider sense is to be wholly unrealistic at both points of the expectation. There is a basic interrelation between the failure of Co-operation in the sphere of credit and its failure to organize on a co-operative basis, not only marketing, but also processes such as the husking of paddy, milling of rice, pressing of jute, ginning of cotton, shelling of groundnuts, expelling of oil, manufacture of *gur* and sugar and subsidiary or supplementary occupations such as dairying, cattle-breeding, poultry-raising, etc., to which we have made reference in the earlier chapters. The same remark applies to the failure of Co-operation in the whole sphere of cottage industries including handloom-weaving. To convert these failures into success will require the surmounting of the main obstacles which have impeded development so far; and one of the main obstacles, as we have pointed out, is the one-sided competition between weak rural organizations which are

[1] *Selected Readings in Agricultural Credit*, International Conference on Agricultural and Co-operative Credit, 1952, pp. 438-40

expected to depend on mutual help, on the one hand, and powerful private organizations of trade and industry on the other, which depend on not less powerful institutions of finance and credit.

Psychological and sociological factors

10. But, as we have pointed out, opposition from outside the co-operative organization, however significant as a cause of the failure, is by no means the only important factor in the situation. Within the co-operative fold itself, as well as in some of the institutions, banking, insurance and other, from which the co-operative structure may legitimately expect assistance, are ingrained attitudes, habits and want of active sympathy, which have seriously hampered the growth of co-operative credit and co-operative economic business. In Chapter 4 have been included various illustrations of the manner in which these elements operate within the framework of the co-operative organization, and effectively frustrate the very objects of that organization. As long ago as in 1915, the Maclagan Committee listed the 'occasional partiality to themselves' of managing committees (of primary societies) as among weaknesses 'only too apparent in India'.[1] This tendency, as well as a not uncommon inclination of members to treat the society as a close preserve of one class of persons in the village, may be traced to the character of village leadership, to the bias towards ownership of land and to the influence of caste. Each of these factors is exemplified by instances drawn from different parts of India in the chapter referred to. The powerful hold which caste and caste leadership possess in rural areas in different parts of the country is illustrated in the extracts given in Chapter 5; it is there seen to be a factor in the functioning of all institutions which seek to affect rural life in India. In the central co-operative banks, in many parts of India, the same influences may be seen to be at work, either in the form of a negative and unhelpful attitude towards the interests of medium and small cultivators, or of the 'tenant' class as distinguished from the 'owner' class; or in a positive bias towards urban interests including, in particular, the interests of the trader class in towns and cities. We have elsewhere cited the view of the Agricultural Credit Organization Committee, 1947, regarding the harm done to the co-operative credit movement by the urban elements which have entered into co-operative banking at the district level. This opinion is shared by several experienced co-operators, official and non-official, who have given us the benefit of their views. A senior co-operative officer belonging to a co-operatively advanced Part A State says:

> "The new class of agriculturists-cum-traders-cum-*sahukars* has been ushered in by the war and it is this class which is generally at the helm and is ruling from primaries to the apex bank. They have a natural apathy, evoked by their commercial interests, to giving loans to the needy agriculturists. They are thus ever ready, with plausible excuses for not giving the most needed loans. . . ."

On the same point, an ex-Registrar of Co-operative Societies of a Part A State comments:

> "On the whole, on the board of management of central financing agencies there is a paucity of members who are actually cultivating lands themselves. The agricultural finance by the co-operatives would be more efficient and smooth if ways and means are devised to secure invariably the presence of some actual cultivators on the board of management."

[1] *Report of the Committee on Co-operation in India*, 1915, p. 19.

Not only opinions, but also actual instances elsewhere given in this volume will be recalled which are pertinent to the point here made regarding the attitudes of some of those who direct the policies of various central co-operative banks. To instance the experience of a noted co-operator[1]:

> "The lawyers and the businessmen who are directors and whom I had brought in to help us in the initial stages opposed the admission of the representatives of the societies on the board, and even when they were admitted, their advice and experience were not fully utilized. They took a sort of bureaucratic view of their position. These vested interests in co-operative banks are responsible for the narrow outlook of the Movement."

This quotation which is taken from *Co-operation in Kodinar*[2] (1951), published by the Indian Society of Agricultural Economics, may be supplemented by the following extracts from the same publication which illustrate some of the limitations which came to light in an area to which co-operative effort and guidance of a more than usually high standard had been consistently directed over several decades. Along with various achievements, the following unsatisfactory features were noticed in the Movement in relation to its record in that area:

> "(1) It has embraced only 56 per cent of the landholders in the taluka. Evidently the Movement is confined to substantial farmers.
>
> (2) Of the total rural families, only 24 per cent have shown active interest in the Movement. Thus, the major part of rural society has not been brought within the fold of the co-operative movement.
>
> (3) The Movement is confined largely to one community—Karadias—and is largely controlled by it.
>
> (4) A considerable proportion of the members—30 per cent—still take recourse to moneylenders, in spite of the relatively higher rate of interest charged by them. Of these debtors, 38 per cent incurred debt to meet day-to-day domestic expenses.
>
> (5) The fact that between 1920-1 and 1948-9 cultivating owners in the taluka have lost 23,000 *bighas* of land to the non-cultivators and that the latter have thereby increased their ownership of lands by nearly three and a half times the area they held in 1920-1, shows that the Movement has not been able to provide the necessary protection to the cultivators against the adverse effects of the depression. . . .
>
> "In short, even though the union has been able to effect considerable improvement in the economic condition and social life of its members, it has left unexplored a vast field of work, particularly in respect of the low-income families both inside and outside the Movement. Any welfare movement which leaves out of its scope as many as 76 per cent of the rural families, whose position is vulnerable, cannot be considered successful. Its success should be judged not by the benefits it confers on the relatively better class [of] cultivators through provision of credit and other requirements, but

[1] Shri Manilal B. Nanavati.

[2] P. 15.

by the improvements it is able to bring about in the economic and social life of the classes not ordinarily touched by organized credit institutions."[1]

Influence of bigger cultivators, traders and urban interests

11. That the interests of the bigger owners were such that they presented a special and largely unsolved problem in the context of a co-operative organization intended for the benefit of all cultivators, was recognized, for example, by the Central Banking Enquiry Committee; we have referred in Chapter 10 to their proposal that a Provincial Land Mortgage Corporation on the English model should be set up for the especial benefit of substantial farmers. There are separate societies for big cultivators in different parts of India; not only are the special problems of this class thus dealt with in institutions designed for them alone, but incidentally the larger landlord is eliminated as a disturbing influence in the normal operations of the co-operative structure. We have in Chapter 10 also mentioned the proposal of the Famine Inquiry Commission that large owners of land should form associations for devising means of improvement of production from their lands. That the problem created by the coexistence of two very unequal classes of producers in the rural area has not by any means been mitigated and that even governmental plans for increased production—as in the grow-more-food campaign—are in practice disturbed by the forces arising from this coexistence may be illustrated by a quotation. *The Report of the Grow More Food Enquiry Committee*, 1952, after enumerating the main conditions in which the campaign for increased production of foodgrains took place, says:

> ". . . it is not surprising that the movement [the grow-more-food campaign] has touched only the fringe of the population, viz., the large holders who were induced by subsidies and other forms of assistance to take up improved agricultural methods. It has not aroused widespread enthusiasm and become, in any sense, a national movement."[2]

The Committee also observe:

> "The economic aspects of village life cannot be detached from the broader social aspects; and agricultural improvement is inextricably linked up with a whole set of social problems."[3]

In the apex institutions of the co-operative structure, such as state co-operative banks and central land mortgage banks, one often finds alongside of much in the leadership or direction that is genuinely co-operative, a very considerable bias, conscious or unconscious, towards urban interests such as private trade, and propertied classes such as the bigger landowners. We have elsewhere (Chapter 5) quoted one of our non-official respondents as saying:

> "The co-operative organization today contains middle class leadership of varying and conflicting interests. It is only in India one finds . . . millowners, *rentier* landlords and traders being the leaders of co-operative organizations and yet we hear not a whisper from any quarter against this entry of inimical elements in the co-operative body."

[1] *Co-operation in Kodinar*, Indian Society of Agricultural Economics, 1951, pp. x-xii.

[2] P. 49. [3] P. 50.

These observations are perhaps too sweeping; they certainly do not apply to all States with equal force; and, even where they do apply, examples of some of the best types of the 'business' leadership, which Co-operation often so badly lacks, would probably be found to belong to the very classes mentioned by the respondent. Nevertheless, after the necessary qualifications are made, there is a degree of truth in the remarks which is of extreme significance. The apex institution, whether concerned with short-term credit or long-term credit or marketing, often operates in a more impersonal manner than do central banks, village societies, etc; but this impersonal working sometimes reflects attitudes which cannot be said to conform to the fundamental objective of the institution itself which is, or ought to be, the promotion of the economic welfare of the weaker and needier cultivator. One may concede what indeed is obvious, viz., that the ability of these institutions—even of the best and strongest among them—to fulfil this objective is necessarily limited in many directions. It has further to be recognized that this ability is more particularly restricted if financial assistance is not forthcoming in the requisite degree from the State or if financial and other association with the State is not favoured by the institution itself. The fact remains that some of these institutions, by their own policies, preferences and inhibitions—by attitudes which have been the reverse of an eagerness to help all classes of creditworthy cultivators without distinction—have fallen short of fulfilling even their present restricted role in rural credit.

Lines of least resistance

12. We have elsewhere given figures to show the extent to which private trade, despite the fact of the persistent injury it inflicts on the prospects of development of co-operative marketing, continues to be financed by the apex co-operative banks of certain States. The bias which, in the pursuit of the line of least trouble in the matter of form of security, some state co-operative banks, along with central banks and primary societies, display towards ownership, as distinct from produce, has also been discussed at some length. It is further clear from the facts given in another chapter, that some of the central land mortgage banks, in their turn pursuing the directions of least trouble and expense, finance the large landowners in preference to the others; further, their loans are more concerned with the liquidation of past debt (which needs only documentary verification) than with the improvement of land and the increase of production (which needs organized field supervision). Not less striking is the attitude in some instances displayed by apex co-operative institutions (and sometimes also by the co-operative departments) in regard to the crucial issue of extension of credit facilities to the less well-placed cultivator or the one who, though well placed, does not happen to own the land he cultivates. All those not admitted into the fold of co-operative association tend to be summarily characterized as non-creditworthy. The obligation, if any, to finance them is ascribed to the State as distinguished from the co-operative movement and any suggested collaboration between the co-operatives and the Governments is on occasion dismissed as repugnant to co-operative principle.

Orthodoxy and hesitancy of co-operatives

13. The words in which one such reaction was couched may be quoted by way of illustration:

"In Madras, every year, about Rs 10 crores are being disbursed as short-term credit to agriculturists for agricultural operations, marketing of crops, etc.

The funds are found by the co-operative financing banks from their own resources which are supplemented by the Reserve Bank of India who have sanctioned them credit limits to the tune of about Rs 5 crores. . . . To provide more credit for co-operative institutions will amount to over-financing. This is particularly so in the case of short-term credit. Therefore, help [from the Government] to co-operatives for short-term credit is not needed. If it is insisted upon, co-operative financing banks, which have already begun to relax their efforts to secure their own deposits because of the help proferred by the Reserve Bank of India, will further relax them, and the co-operative movement which should be based on the principle of self-help, will be shifted to the principle of State-help. This will spell disaster."

Along with these observations may be taken into account the fact that in Madras, as indeed in every State, a very large section of cultivators is still outside the fold of co-operative credit. If, that remaining the case, the credit structure itself experiences no real need for additional funds, the conclusion to be drawn would be either that the whole of the excluded section of cultivators is 'non-creditworthy' and therefore not deserving of admission into co-operative credit societies, or that there is no positive obligation on the co-operative credit movement to extend its activities to wider sections of the cultivating population. In Bombay, the relatively recent partnership between the co-operative banking structure at its higher levels and the State has produced, as we have seen, results which are by far the most outstanding in India both as regards the extent of partnership and the proportion of the total borrowing needs met by co-operative loans. Striking as this progress is in comparison with the record of other States, it falls very short indeed of the acclaimed objective of extending adequate credit to all creditworthy agriculturists in the State. That is so even if creditworthiness is adjudged on the existing basis of security, i.e, without allowing for the possibility that the effective re-organization of co-operative marketing would bring more and more producers, on the basis of their production, within the most orthodox definition of 'creditworthy'. Having positively associated themselves with the State in this deliberate venture for the extension of co-operative credit and made progress which from one point of view is remarkable, the Bombay State Co-operative Bank would seem to have begun to feel that the limits of safety for the credit structure have been reached. The following is quoted from the bank's reply to our Questionnaire:

" In fact, a position has now been reached in which the resources of the co-operative movement, reinforced by the advances from the Reserve Bank of India, have been applied in the financing of agriculture to the utmost limit which may be considered within the bounds of safety. It must also be borne in mind that, apart from the financing of agriculture, the co-operative banks have been called upon to finance, in an increasing measure, such co-operative activities as the distribution of controlled commodities like cloth, sugar, cement, iron and steel, etc., the working of industrial co-operatives, and the financing of agricultural produce in the mofussil centres etc. With the passage of the Moneylenders' Act and the Agricultural Debtors' Relief Act, the private moneylender has largely withdrawn from the field of financing agriculture, and the burden of finding credit for the agriculturist has, therefore, shifted mainly to the co-operative movement. On the other hand, there has not been any rise in the deposits with the co-operative banks. In fact, there has been a fall in the same manner as there has been a fall in deposits of scheduled banks.

. . . It is, therefore, obvious that the resources of the co-operative movement are not adequate to meet the demands for finance at the present stage, especially as there has been no increase in the deposits with the co-operative banks in the rural areas."

The present experiment of extension of co-operative credit in Bombay is based on the system of 'crop loans'. In the latest Annual Report of the Bombay State Co-operative Bank (1952-3) is quoted the comment of one of its directors that:

"It would be no exaggeration to say that comparatively highly placed officials of the bank, of the Co-operative Department and of the central banks had themselves no complete idea of the implications and the operation of the crop loan system."[1]

In explanation of the fact that the progress made, even though not unsatisfactory, is not much more than it actually is, the following observations are made in the Report:

"The objective of the institutional credit system could not, however, be effectively implemented, firstly, because it was not properly understood in its true perspective by co-operative workers and much less by the borrowers. Secondly, it was not possible to effectively enforce the linking up [of] credit with agricultural production and with marketing, which is the essential feature of the system, as suitable marketing organizations did not exist, nor were the borrowers disciplined, for various reasons, in the method of co-operative marketing to market their produce through co-operative organization or to link the credit drawn from societies to seasonal agricultural operations. A number of existing purchase and sale organizations were mismanaged and consequently confidence of farmers in them was lost."[2]

In these two instances of Bombay and undivided Madras where the co-operative banks concerned are among the most highly developed in India, we have illustrated not so much the 'attitudes' displayed as the inhibitions of ideology (in Madras) and the difficulties of organization and co-ordination (in Bombay). If this is the position of two of the state co-operative banks which are among those with the best and longest traditions in India, the situation faced by the apex banks of several of the other States, especially those which are relatively undeveloped in the co-operative aspect, may well be imagined in the context of not dissimilar problems. Moreover, in some of the States, the boards of the state co-operative banks include heterogeneous urban elements not particularly attuned by training or temperament to the needs of rural areas, still less inspired by a common determination to meet those needs to the maximum extent possible. This partly explains the tendency to seek out those lines which, along with some profit, present the least trouble, such as accommodating the trader in preference to financing the cultivator. Further, certain state co-operative banks have a large element of 'borrowers' on their boards, the borrowers being the central co-operative banks—a very different class from the cultivator who is, or ought to be, the ultimate borrower; and, while this arrangement may work with smoothness and efficiency as in Madras, the same cannot be said of each of the other banks concerned. In some of them, there is considerable conflict between the representatives of the central co-operative banks on the one hand and those more directly concerned with the proper management of the apex banks such as official and non-official

[1] P. 13. [2] P. 17.

nominees of the State Government. Progressive credit policies for the benefit of the cultivator and for the promotion of production have usually little chance of being pursued in the conflict of interests and attitudes which is a characteristic of some of the less well-developed state co-operative banks.

Attitude of urban credit agencies

14. In the light of what happens in banking institutions specially designed for the supply of rural credit on a co-operative basis, it is not surprising that the much more urban-minded and profit-motivated commercial banks, insurance companies, etc., have little use for the agriculturist and agricultural finance. Since the premier industry of the country happens also to be the least paying, those representatives of co-operative banks who approach commercial banks or insurance companies for help in the matter of financing agriculture—the former infrequently, but the latter more often in the context of debentures issued by land mortgage banks—not uncommonly get short shrift from some of these institutions even when the accommodation or the investment is not outside the normal scope of their functioning. The record in this respect of commercial banks, elsewhere illustrated by figures, bears out this statement. Among the notable exceptions are some of the State-associated commercial banks which, on account of the influence on them of the policies of Governments, have sometimes given fairly substantial loans for non-trading agricultural purposes. Even so, their assistance to agriculture has not been consistent and is, in the total context, negligible. The clientele of commercial banks and insurance companies remains preponderantly urban as do, of course, their directorates.

The Reserve Bank, other Central Banks and agricultural credit

15. We shall, in a later chapter, have occasion to refer to recent changes in the policies of the Reserve Bank of India in regard to the promotion of agricultural credit. Meanwhile, as illustrative of the position as it obtained some years ago, may be quoted the following typically 'bureaucratic' summing up and disposal of issues connected with co-operative credit which figures in the Statutory Report which the Reserve Bank submitted to the Governor-General-in-Council in 1937:

> "The co-operative associations have from time to time made various demands for the extension of the provisions of the Act. It has been urged that the Reserve Bank should supply normal agricultural credit to co-operative banks. We have already explained that this is impossible. It has also been suggested that provision should be made for giving cash credit facilities to provincial banks. As we have pointed out, there is already a provision in the Act for the grant of advances against Government securities for ninety days and for the reason given above we do not think that it is possible or advisable for any further provision to be made in this respect. Another suggestion is that the provincial co-operative banks of Indian States should be brought within the scope of the Act. We consider that this is a matter for the Central Government to decide in the light of the financial and other relationships with the Indian States. Another suggestion is that section 17(4)(*d*) which at present allows advances against promissory notes of provincial co-operative banks which have granted cash credits or overdrafts for financing the marketing of crops should be extended to include promissory notes given for loans and advances granted for the same purpose. Our investigations show that most of such financing is done

through cash credits or overdrafts and in any case it seems to us premature to recommend such amendment of the Act at this stage. It has also been suggested that section 17(2)(*a*) should be amended to include the provincial co-operative banks in order that urban co-operative banks dealing with small artisans and traders may be able to approach the Reserve Bank through them. Such business has not yet developed to any great extent except in the Bombay Presidency where the provincial co-operative bank is in a position to satisfy all the demands. There does not therefore seem to be any urgency about this at present. It has also been urged that section 17(2)(*c*) which refers to advances for trading in securities should be made applicable to provincial banks. We do not think this desirable. Lastly, there has been a considerable demand that the Reserve Bank should invest in the debentures of land mortgage banks and it has even been urged that provision should be made for enabling the Reserve Bank to give long-term rural credit. It is unnecessary to repeat again the incompatibility of long-term finance with the functions of the Reserve Bank. Even in regard to the buying of debentures of land mortgage banks the Reserve Bank has to take care to see that they are easily marketable since it cannot lock up its funds and we consider it safer not to purchase them at this stage of our development. Though we have thus not accepted at present any of the suggestions made by co-operative organizations, we are bearing in mind their requirements and if we find it necessary in future to approach the Government for any important amendments of the Act we shall consider them at the time."[1]

In view of the much more active interest which the Reserve Bank is now taking in the debentures of land mortgage banks, it is also interesting to recall that at the Fifteenth Conference of Registrars of Co-operative Societies held in 1947, the representative of the Reserve Bank made the following, among other, remarks in regard to the insistence of that institution that co-operative land mortgage banks should, like commercial concerns, rely on their own strength and not seek any special assistance from either Government or the Reserve Bank:

"The view of the Reserve Bank is decidedly against making Government guarantee a permanent feature. . . . So many joint-stock concerns issue debentures; they do not depend on Government guarantee for their success. We know that several of their issues are very well subscribed. They rely entirely on their sinking fund and the trust for the redemption of the debentures. While this is the case with joint-stock concerns, why should the land mortgage banks alone depend on Government guarantee? I think this spoon-feeding all through is undesirable. It has been emphasized that co-operative societies should be self-reliant and be able to build up their own funds. . . . How long can you continue with the aid of others and when are you to become self-reliant? To what extent can Government go on extending help to you? . . . I think the guarantee is demoralizing to the land mortgage banks themselves."[2]

The attitude of the Central Bank of a country, as indeed that of its bigger commercial banks and financial institutions, is obviously a matter of great importance to the specialized structure of agricultural finance. We give below, as illuminating this context,

[1] *Statutory Report*, Reserve Bank of India, 1937, pp. 38-9.

[2] *Proceedings of the Fifteenth Conference of Registrars of Co-operative Societies*, 1947, pp. 170-1.

a passage from an address of Dr De Vries[1] at the International Conference on Agricultural and Co-operative Credit held in Berkeley, California (U.S.A.) in 1952.

" Some of you have asked about the functions and attitudes of Central Banks in this respect. Without going into too much detail about the general financial structure of a country, I would say that for our purpose we can consider the total financial resource of the Central Bank, the commercial banks, the Government treasury, special savings banks, insurance companies and a few other organizations which may exist in one country but not in others, as being one general reservoir of capital that will be used for all kinds of purposes in the development of a country. I have called it here the 'financial superstructure' of a country. And one of its essentials is, even in an undeveloped country, that all these different institutions are very closely interrelated. They borrow and deposit money among each other in a way which is sometimes very highly developed and sophisticated, sometimes a little bit clumsy, but in almost every case rather efficient. The Central Bank has the function of being the conscience of that financial superstructure. Governments are too often inclined to use funds out of that superstructure for their own needs. If they are not judicious about it, or if the commercial banks are not sufficiently controlled by the Central Bank, the inevitable result is inflation which means that money is created without real savings, and money is spent, invested or consumed without adequate savings at disposal.

" So, agricultural-development institutions, whether as co-operatives or like the Latin American style of *Cajas de Credito Agrario*, have to apply to the financial superstructure and often have to say demurely, 'Please, may we have some money for our agricultural development ?' Central Banks too often are not readily inclined to make capital available for agricultural development. I believe that there are many Central Banks who live so completely upstairs in their superstructure that they don't go down to earth to see how agriculture really is financed in their country. . . . The commercial banks are in a very close relation with the Central Bank. Brokers, traders, middlemen, owners of processing industries get much of their working capital from commercial banks. And I have found no country where the Central Bank or the commercial bank thinks this inappropriate. Rather, it is very easy for an ordinary middleman in a village to get through his bank and that small bank again from higher up, a lot of working capital to buy paddy and mill the rice, or buy the coconuts and prepare the copra, or the cocoa beans and prepare the cocoa, or buy hides and skins in the village and sell them after they are cleaned for export; whereas for agricultural institutions, it takes a lot of argument to get only 10 per cent of these aggregate sums to finance the farmer directly.

" I think it is well to say, and I think it applies to almost every country, that one of the duties of the leaders of farm credit institutions is to be so well acquainted with the people in the superstructure and make the case so clear that it becomes possible to get financing funds for agriculture directly through their credit institutions. The Central Bank generally fears more credit to the farmer as an additional source of inflation. And this inflation would defeat the purpose of economic development. This would be quite true if the story was complete. But the credit that

[1] Chief, Economic Resources Division, International Bank for Reconstruction and Development.

now comes through commercial banks and through the middleman who buys the products from the farmer is just as inflationary as direct farm credit would be. And what we are after in this respect is a replacement of a less efficient type of credit by a more efficient type."[1]

Basic cause of failure of co-operative better business

16. In the sum total of the attitudes and environment, psychological, sociological and other, of co-operative societies, central co-operative banks, apex co-operative institutions, commercial banks, insurance companies and the Central Bank of the country, consists the climate of institutional credit; that climate in Indian conditions has been preponderantly 'urban'; it is not yet congenial to rural interests and the fulfilment of rural needs. It is in this climate that the rural producer is expected, by and large, both by co-operative theory and governmental policy, to combine with other rural producers, form co-operative associations at the village level and through them conduct his 'business' in so far as it concerns credit. He is expected to do this without financial assistance of a significant order from the State, but with a great deal of administrative advice and guidance from it. Having formed an association, he is left to face the powerful competition of private credit, private trade (often private moneylending-cum-trade) and private organization of industry, all of them deriving strength and support from the urban apex—whether of commercial banking and finance or of export or wholesale trade. In the same context, the rural producer is expected to organize himself co-operatively for the promotion of the processing, marketing, etc., of his harvest. Added to all this is the cleavage of interests in the village itself, with the bigger landlord, the village moneylender, the village trader, etc., on one side and the medium and small cultivator on the other. Village leadership, vesting as it does in the former, usually operates partly for the advantage of the more powerful economic interests and partly in alignment with the social institution of caste; and village leadership thus constituted and biased makes itself felt in every institution in the village including, of course, the co-operative society itself. How this combination of circumstances outside and inside the village has arisen in India will form the subject of the next chapter. Meanwhile, we may conclude at this stage that in this combination resides the basic reason for the failure of the co-operative efforts at 'better business' in its twofold aspect of better co-operative credit and better co-operative economic activity.

III. BETTER LIVING

Co-operatives and better living

17. The third main objective of Co-operation mentioned at the outset was better living. More and more has co-operative theory in India, in recent decades, shown an inclination to shift the emphasis to this aspect of the function of co-operative organization. To assess the validity of this change in emphasis we have to recall that in the conditions just described, the progress of Co-operation in this country has taken place in the manner of what may be described as an inverted handicap race: the bigger handicap being attached to the weaker in the race. Even within this grave limitation, a certain number of miscellaneous reforms might arguably have enabled Co-operation to do a little better than it actually has; but it is only of academic interest to speculate on what more it might

[1] *Proceedings of the International Conference on Agricultural and Co-operative Credit,* 1952, pp. 317-18.

not have done with an improved method here, with some better provision for training elsewhere, and so on. The main difficulties would still remain; they are far-reaching and fundamental. Knowingly or unknowingly confronted by these, it is perhaps no wonder that the co-operative movement has started to think more and more of better living. Partly, this can only be described as escapist. Not successful, in co-operative action, with better farming and better business, not fully realizing, it may be, that the want of success is much more due to forces beyond Co-operation than to weaknesses within it, co-operative thought and co-operative prescription have tended to seek refuge in the hypothesis that if only the functions and activities of the society are directed to all aspects of life, instead of only to farming and business, the Movement will have much better chances of success. There seem to be discernible here two wholly distinct contexts in one of which the idea may be valid, but of limited application, while in the other it would be fallacious and misplaced. A strong society, which is generally a society which has either certain advantages in regard to leadership etc., or against which, for some very exceptional reason, are not arrayed the urban forces indicated in the foregoing paragraphs—such a society may indeed achieve better progress than it hitherto has if it concentrated not on a single purpose but on the many purposes implicit in better living. To treat the same remedy as appropriate for a weaker society, which, because of those forces, is not able to organize either its farming or its business on anything like a reasonable level of efficiency, is, in our view, to commit a fundamental mistake. Generally speaking, better living can only come as the accompaniment or sequel of better farming and better business, and the two latter will be successful only when the conditions requisite for their success are first brought about.

CHAPTER 22

ANALYSIS OF FAILURE (II)

Private economy and Co-operation: the strong and the very weak

REVIEWING the statistics of co-operative credit for the period 1906-7 to 1911-12, the Maclagan Committee observed, "Local conditions varied so widely that progress was by no means uniform and in different regions very different types of societies began to make their appearance. But in no Province did the new doctrine fail to strike root . . . The progress made in the first few years of the Movement was remarkable."[1] The conclusion that the primary co-operative society had taken root in this country was premature then, and would perhaps be still premature now nearly forty years after the report of the Maclagan Committee. Indeed, it might not be wholly impermissible to detect a certain degree of truth in a description we have come across of Co-operation in this country as 'a plant held in position with both hands by Government since its roots refuse to enter the soil'. More than the roots of Co-operation, it is the tentacles of private economy that have acquired grip in rural India.

The not-so-strong can combine co-operatively and get the same advantages as the strong. But the very weak are not in the same position as the not-so-strong; certainly not if the strong have, in addition, a whole reservoir of institutional strength from which they can add immeasurably to their own. This disproportion provides a key to the wholly different records of co-operative credit in the West and in India; for, Co-operation can succeed only if, between the forces of Co-operation on the one hand and the opposing forces of private credit and private trade on the other, the disparity that ever tends to be present does not exceed certain reasonable bounds. In India, not only has there been too wide a disparity between the internal strength of the co-operative structure and the external forces pitched against it in competition; these latter have in many insidious ways entered into and vitiated the internal cohesion of co-operative bodies themselves. No more than an outline of how this has happened is attempted in this chapter. Much of the material in support and illustration of what is here briefly indicated will be found set out in the preceding chapters.

Colonialism, industrialization and commercialization

2. In India today there is an aggregate of private financial power, which in point of location is largely urban and—what is more important—in point of bias, that is to say, of the practices, attitudes, preferences and interests of the individuals and institutions who share the power, is almost wholly urban-minded. In appreciable degree, this may be regarded as the heritage of a colonial economy, which, seated in the bigger

[1] *Report of the Committee on Co-operation in India*, 1915, p. 3.

ports and cities, drew to itself for export abroad the raw materials—the 'cash crops'—of the rural area, and which, in that process, signified also the advent of the cash economy to the country-side; certainly, in the details of its interpenetration from city to town and from town to village and in its main ramifications in the rural area it drew sustenance from the hoary inequities of caste and class and privilege. The cash economy brought with it changes which had inevitably to come to the rural area; for, the advent of the economy itself—irrespective of the historical accident of its colonial origin in this country—was inescapable in the conditions of the modern world. Money and the use of money assumed much larger significance than before even in those 'subsistence' areas, usually also the remoter rural areas, where payments and transactions in kind, including a residual extent of barter, were significantly prevalent. As a rule, however, the powerful interests of export succeeded in imposing the cash economy only within the periphery of their own transactions with the rural economy. In the cities and towns grew up bodies which were ancillary to the main institutions of export trade and finance. These subsidiary elements consisted of banks, firms, trading houses and individuals—agents, financiers, etc.—representing the indigenous interests which found it profitable to work for or in conjunction with the more powerful foreign institutions, into many of which, indeed, they later found entry and which in some instances they even replaced. Lower down in the rural area was the village moneylender and the village trader, often the same individual, as well as the small-town moneylender and the small-town trader or commission agent, again often the same individual, who also aligned themselves to, for indeed they were the necessary instruments of, the new economic system which rapidly invaded the old. Where there was self-sufficiency before, these forces of commercialization worked for the larger production and outflow of the particular commodities—cotton, jute, etc.—which were originally needed for export to the big manufacturing centres abroad and at a later stage for the urban industries which had meanwhile grown up within the country itself. Large tracts of the country retained their character as food crop or subsistence economies. But they too were affected in varying degrees by the new cash needs imposed on them through the gradual disruption of the older self-sufficiency. At the same time, the banking institutions of the commercialized economy were little interested in these areas, and in them the moneylender, as distinguished from the trader in cash crops, assumed greater power and importance than elsewhere. In its industrial aspect, rural self-sufficiency had been affected even earlier, since, for one thing, the products of cottage industries had to compete with those of organized industry, foreign and indigenous. The reaction of those who sought to advocate a return to the old order was wholly unrealistic. Much more to the point would have been a planned and determined attempt on the part of the State to minimize the socio-economic effects of the new and inevitable forces on the millions of people adversely affected by an unplanned transition from one order to another. But this implied an enlarged concept of the functions of the State; and even the partial recognition of such a concept, in the actual working of Government as distinguished from mere theories as to the role of the State, was at that time a distant development yet to come. In India, it would have been futile to expect any significant recognition of the concept until after political power passed to the people themselves. Even so, it required the conditions created by the last World War to induce some recognition of the political, social and economic necessity of State intervention, State control and State planning for the benefit of classes and areas less favourably situated than the rest.

Urban-derived power of village trader and moneylender

3. Meanwhile, for several decades there continued to operate, as there still operates, a mechanism of trade, finance, etc., the working of which has, by and large, been consciously or unconsciously against the interests of the rural population generally and the rural producer in particular. The resulting conflict may be very broadly described as between the 'urban' interests which had now established themselves and the 'rural' interests which had always existed. The new pattern was such that the access to seats of power and sources of finance was largely cut off from the weaker sections that formed the bulk of the rural population. The location of both power and finance continues to be largely 'urban', and the institutions so located tend inevitably to be urban-minded in the sense that their directors and executives respond much more readily to urban than to rural interests. The urban-mindedness is not confined to private institutions of finance; it usually also extends to the more significant institutions of the State and to the headquarters and sub-headquarters of the administrations of the different Governments. To these seats of power and sources of finance, public and private, is established a chain of contact, influence and, where relevant, financial interrelation. At the far end of the chain, that is to say the village, are the village leaders, such as *panchayatdar* and *patel*, who occupy the local seats of power, and the village financiers such as moneylender and trader who are the local sources of finance. In view of their being a part of the channel of power and finance, they are also the recipients of power and finance from sources and reservoirs higher up the channel. Sometimes two or more of these—the village leader, the village lender and the village trader—are one and the same person; and a broad affinity governs their attitudes towards the rest even where there is more than one leader, more than one lender and more than one trader. Leadership in particular is important. It may be based on the ownership of property, on the advantage of education, on the hereditary position held in the preponderant local caste, on a combination of all or some of these factors and finally—and growingly—on political influence. All too rarely is effective village leadership based on merit or culture or on capacity to be of service to the village itself. When this leadership happens to be outside the local village institutions—the co-operative society in the present context—it is a danger; when it is inside these institutions it is even more potently and more presently a danger. The danger partly arises from the fact that, while the State has a vested interest in the success of Co-operation, private banking and private trade, particularly at the village level, have a vested interest in the failure of co-operative credit. This is less and less strong and more and more implicit and impersonal at the higher levels, but stronger and more explicit at the lower stages. When local Co-operation gets into the charge of the village moneylender, and more especially the landlord-cum-moneylender, he becomes the society, the depositor and the borrower, all of them together or each in turn, with the ease with which the one Godhead becomes Brahma, Vishnu and Shiva—Creator, Preserver and Destroyer—in the more picturesque expressions of Hindu philosophy, or with the elusiveness with which matter and energy exchange roles in the more recent refinements of nuclear physics. Some instances of this type will be recalled from those mentioned in the 'operational picture' of the co-operative agency (Chapter 4). A few of the examples given also illustrate how the trader or the private processor offers bitter opposition to the co-operative marketing or processing society, and how sometimes he effects an entry into the society itself or at other times forms a rival one so that his influence may be predominant and his interests made safe against co-operative incursion. The affinity of interests between moneylender and trader and their common interest in the failure of co-operative

credit—notwithstanding that they may be content to ignore the society as long as it shows no signs of being other than insignificant—can be readily explained. Both moneylender and trader, in so far as they are interested in the producer of cash crops or foodgrains which are sold in the urban market, derive that interest from the fact that there is enough profit at the marketing end to make their own transactions with the producer profitable, whether in the form of interest on moneys lent or of commission on goods sold; in other words, they are, in this context, a part of the financial and trading machinery which operates in order to supply urban demand which is relatively paying, whether this demand is related to consumption, manufacture or export. Credit for production and finance for marketing at the village level tend in these circumstances to be, if not in the same hands, at least in the hands of those who see with the same eyes and work for the same ends, this co-ordination being dictated by the character of the demand which is supreme over both production and supply. It is inconceivable, for example, that credit for production could be largely co-operative while finance for marketing and processing remained largely private.

Village leadership and administration

4. It is not only the urban-induced power of the private moneylender and the private trader that affects the success of co-operatives when it manifests itself either inside or outside the society. Affinity is not confined to these two; it extends to the leadership in the village, whether this is based on property or derived from connexion with the administration. The bigger landlord has ways which conform with those of the moneylender, and indeed, as we have said, he is often the moneylender or trader himself. The village headman is also drawn from the same class, and it is usual for these to have connexions which link them not only to the sources of finance but to the seats of administrative power. Subordinate officials, revenue and other—including those of the relatively low-paid co-operative department—have often no alternative but to stay with these village leaders and be dependent on them for ordinary amenities when they visit the village or camp in it for a few days. In this and other ways is initiated a process of association with those who wield power and influence in the village and who for that reason have their own uses as the local instruments of an administration which resides in towns and cities and which in varying degrees is inaccessible to the ordinary villager. This close conformity of association and interests between the subordinate officials of Government and the more powerful elements in the village is a matter to be borne in mind as of great significance in explaining the failure of implementation of the policies and directives, co-operative or other, emanating from the higher levels of the administration. Sometimes, temporarily overawed by superior official authority or enthused by missionary-minded officers, an important measure of co-operative policy, for example, may in fact be translated into practice in the village; but it is not often that the effect is lasting; frequently the directions merely remain on paper, especially where they involve some disadvantage to the more powerful in the village. Acting in concert with these, the subordinate official, whose functions take him to the village, creates for the benefit of the superior officers what might be called the illusion of implementation woven round the reality of non-compliance. Several factors in the village help to create this effect, not least among them the powerful influence of caste. If the leader is of a particular caste, it is unusual for others of the same caste in the village to report to superior authority that things are otherwise than as reported by the leader and the subordinate official. This marked

tendency towards the promotion of an impression of change around changelessness, of active obedience to behests around stolid resistance to instructions, which only the most persistent and detailed supervision from above can check, has always to be taken into account in assessing the worth of reports that the policies of Government have been put into operation in the village. The consideration is one which must qualify both satisfaction and belief when it is found stated, for example, of a particular area, that tenancy laws have been enforced, or that moneylenders are not operating without due authorization, or that co-operative societies are actively functioning from year to year. The *status quo* and the non-compliance are often achieved conjointly and at great effort by the leading elements in the village and the subordinate agencies of Government. The balance attained may be the result of some completely new alignment of forces, of some new distribution of perquisites or of some new passing of ' consideration '. The persons who suffer in this process are the weaker and disadvantaged elements of the village for whose benefit the directives and policies are conceived. Among the combinations of factors which thus operate against the interests of the bulk of those who reside in the village is the rigidity of caste feeling in conjunction with the power derived from money, land, leadership, and above all the affiliation with the superior forces of urban economy. The rigidity of caste loyalty remains, while the original division of caste functions no longer does. The result is that the landlord who may also be moneylender, the moneylender who may also be trader and the educated person who may also be subordinate official, all these through their association with the outside urban world of finance and power wield an influence in the village which at many points is diverted from the good of the village to the benefit of the caste or even of a close circle of relatives.

In considering the record of the co-operative credit movement in the Indian village, it has accordingly to be remembered that in India, as wholly distinguished from other countries, there has been the unique *combination* of the following features: (1) a socio-economic structure largely based on caste within the village itself, (2) the linking up of the upper parts of that structure to a cash economy and an administration centralized in the urban sector, and (3) the fact that the linking up took place as the outcome of three processes which historically happened to operate *together* in India, viz., colonial rule and administration, commercialization of agriculture and urbanization of industry.

Socio-economic context of Co-operation

5. It is within a socio-economic structure so distorted by this combination of events and forces as to present a grave disparity within the village itself and an equally grave disparity between the village on the one hand and the town and the city on the other, that the co-operative effort to develop credit has hitherto taken place in India. Co-operation had—and has—the great mission of seeking out the greatest common measure, firstly of good in the economic sense and secondly, but not less importantly, of good in the ethical sense in the leadership and following of the Indian village. The task in effect was to combine these two elements of good and to direct the force so generated towards a great endeavour for the common betterment. Perhaps, in this effort, Co-operation might have succeeded a little better if it had recruited a band of devoted workers at and from the village level capable of knowing and applying the co-operative technique among their coequals. Attempts have indeed on occasion been made by co-operative leadership to build up a body of competent co-operative workers from the village upwards. But it was not the fault

of the leadership or of the Movement that an approach which had to be at once scientific and missionary, village-minded and country-wide, failed to be adopted on any significant scale. It may be that the time itself was not ripe for such techniques. In any case, for a non-official agency the task was stupendous. For Government, as till recently constituted, the task was impossible. The context has now changed and the time is clearly propitious. This is specially true of the opportunity which now presents itself before Government, of developing co-operative societies—or administrative *panchayats* or other comparable village institutions—in a manner which ensures that those institutions, together with the structure of which they are the base, are so designed in their relation to the internal pattern of village leadership as to be for the advantage of the village as a whole and in particular for the protection and benefit of the weaker elements that so largely inhabit it.

Co-operative development and the State

6. The failure of co-operative credit is explicable in terms of the total impracticability of any attempt to combine the very weak in competition with the very strong and expect them by themselves to create conditions, firstly for their emancipation from the interests which oppose them, and secondly for their social and economic development in the context of the severe disadvantages historically imposed on them by a structure of the type described. The problem is not so much one of reorganization of co-operative credit as of the creation of new conditions in which it can operate effectively and for the benefit of the weaker. The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their existence. The forces of transformation have to be at least as powerful as those which are sought to be counteracted. Such forces can be generated not by Co-operation alone but by Co-operation in conjunction with the State.

One may consider an institution for the rehabilitation of crippled children struck down by the malady of infantile paralysis. The little patients are studied, courses of treatment prescribed and carried out, muscles gradually strengthened and all efforts made to rehabilitate them and send them back to normal life. No one has yet suggested that those children should depend on themselves as much as possible and form themselves into a mutual association for individual rehabilitation.

VI. SEARCH FOR SOLUTION: THE STATE-CONTROLLED AND STATE-ASSOCIATED AGENCIES

CHAPTER 23

RECORD OF THE RESERVE BANK

Rural credit and the changing role of the Reserve Bank

WE give below, without specific comment, two extracts from official reports and two from non-official expressions of views, all the four bearing upon the policies of the Reserve Bank and the significance, at different periods, of its role in the sphere of Rural Credit and Co-operation. The first extract is from the Reserve Bank's Statutory Report submitted to the Government of India in 1937 under section 55(1) of its Act. The second is from the *Report on Rural Marketing and Finance* by the National Planning Committee appointed by the President of the Indian National Congress in October 1938. The third again is an extract from a report of the Reserve Bank itself, viz., that of its Central Board of Directors for the year 1951-2. This is a relatively long extract but we make no apology for reproducing it as it brings out very clearly the main strands of policy which run through many recent measures and developments in rural finance in which the Reserve Bank has taken the initiative, and an understanding of which is of obvious importance to our enquiry. The last is from a brief memorandum presented to the Planning Commission, early this year (1954), by a foreign expert on agricultural credit, who was in India some months ago at the invitation of the Planning Commission. Our thanks are due to him for kindly letting us see it.

(1) *The Statutory Report of the Reserve Bank* (1937)

After pointing out in Chapter III of the Report the various weaknesses of the co-operative credit movement in India and indicating the measures which, in the Reserve Bank's opinion, were necessary for rectifying them, and proceeding to draw attention to the nature, scope and limitations of the Reserve Bank's own powers to grant financial accommodation to co-operative banks, the Report goes on to say in Chapter IV :

> " It may further be explained that the Reserve Bank though it will be prepared to deal with provincial co-operative banks on the above lines must retain the discretion to judge for itself the advisability and expediency of granting accommodation according to the circumstances of the time, and cannot make large permanent promises in advance. . . . Above all, it must be clearly understood that all that the Reserve Bank can do is to help the provincial co-operative bank to tide over a temporary shortage of funds and as the funds advanced must be repaid within the time limit allowed by the Act, the co-operative banks cannot make use of them for the purpose of continuing finance. These conditions may seem stringent but, as we have already pointed out, the Reserve Bank has to work within the limitations imposed on it by the essential conditions of sound central banking and expressed in its constitution. We propose from time to time to issue instructions and circular letters indicating what are in our opinion the criteria of sound banking which would justify our making advances and also laying down the procedure for obtaining loans and advances when these conditions

are fulfilled. We shall always be glad to give co-operative banks advice to enable them to organize their business on sound lines. A healthy competition among the provincial banks to conduct their business in such a manner that they will be in a position to obtain financial accommodation from the Reserve Bank when necessary will, in our opinion, be all to the good and we hope that they, in their turn, will influence the central banks to observe the same strictness so that the whole Movement may be toned up."[1]

(2) *The Report on Rural Marketing and Finance by the National Planning Committee appointed by the President of the Indian National Congress*[2]

After commenting, in Chapter XIII of the Report, on the policies and practices of the Reserve Bank in the context of accommodation to co-operative banks, the Committee goes on to add:

" All this throws significant light on the attitude which the Reserve Bank has adopted with regard to the whole question of placing the agricultural credit system of the country on a more rational basis. It has laid down the conditions which co-operative banks will have to fulfil before they can be eligible for obtaining financial accommodation. In short, it has been asking for a complete rehabilitation of the co-operative movement as a condition for any such accommodation. It is inclined to overlook the vital consideration that it can itself lend a helping hand in bringing about the rehabilitation which it demands. . . . The Reserve Bank, as the ultimate custodian of the country's credit policy, has not only the right to lay down the lines along which the Movement would be reorganized, it has also the responsibility to do all that is within its power to bring about the necessary reorganization. To wait till the Movement has reorganized itself through its own efforts, would be to wait too long."[3]

(3) *The Report of the Central Board of Directors of the Reserve Bank for the year ended 30 June 1952*

" In no other sphere perhaps as in that of rural finance is it of so little use, in Indian conditions, to turn for guidance to the central banking practices evolved in the highly industrialized countries of Western Europe. In this matter, as in the extension of banking facilities generally, fresh approaches had to be thought out; and it was in order that the lines laid down might be sound and well considered that, at the suggestion of the Reserve Bank, the Government of India appointed the Rural Banking Enquiry Committee (1949-50), while the Bank itself subsequently convened an Informal Conference for the discussion of its role in rural finance (February 1951). Reference has been made in the last Report to the various recommendations of the Committee and of the Conference. . . . The progress made is best reviewed in relation to what might be termed the threefold approach to banking extension laid down by the Rural Banking Enquiry Committee, and the threefold approach to rural finance agreed upon at the Informal Conference.

[1] Pp. 37-8.

[2] Most of the reports of the Committee were initially prepared in 1939-40. The actual year of publication of this report was 1947.

[3] P. 137.

"The Rural Banking Enquiry Committee said in effect that conditions should be created

(1) for co-operative banks to extend beyond the town to the village, and commercial banks, beyond the bigger to the smaller town,
(2) for the Imperial Bank to extend beyond banking treasuries to non-banking treasuries, and
(3) for the Reserve Bank to extend beyond Part A States to Part B States.

"Accordingly, the Committee was concerned in the first set of recommendations to make detailed suggestions for the provision of better facilities, including cheaper remittance for banks generally, including co-operative banks. In the second, it was specifically concerned with the provision of such facilities at places where they did not exist before, but where they could be readily introduced, for the benefit of banks and the public, if the Imperial Bank took over the cash work of the treasury and ran the currency chest. A wider network of such branches for Part A States was, therefore, recommended. The problem had to be tackled on different lines in Part B States, since many of these had built up their own banking institutions which, in some cases, were in charge of their treasury operations. In order to be able to initiate programmes of banking extension and rural finance in these States, it was clearly necessary that the Reserve Bank should have powers and status comparable to those it possessed in Part A States as the sole banker of the Governments of those States. The third set of recommendations envisaged, therefore, that the Bank would conduct and complete the requisite negotiations with the State Governments concerned, and, in fulfilment of the process of federal financial integration, commence to function in Part B States on the same basis as in the rest of India.

"In the more specialized context of agricultural credit, a number of proposals were discussed and accepted at the Informal Conference which, for convenience of classification, could be regarded as steps

(1) for enabling the Reserve Bank to function more effectively within the existing framework,
(2) for enlarging the framework, so far as that could be readily decided upon and carried out, and
(3) for eventually designing a new and co-ordinated framework in the light of facts to be ascertained.

"Under its statute, the relevant operations of the Reserve Bank are restricted, broadly speaking, to short-term agricultural credit; and, in practice these operations are further confined to States in which the pyramidal structure of co-operative credit, with a state co-operative bank at the apex and primary credit societies at the base, is relatively well developed. . . . The first set of recommendations comprised suggestions for reform and improvement of this type, that is to say, those which could be given effect to within the existing framework. The next category dealt with the legal and structural limitations mentioned above, and included recommendations, firstly for the amendment of law, so as to extend the scope of the Bank's operations to certain items such as medium-term agricultural credit and short-term credit for cottage industries, and secondly for the reorganization of the co-operative credit structure of those

States in which it was relatively undeveloped or was in need of rehabilitation. . . . Up to this stage the recommendations . . . were based on considerations not dependent on the collection of any large new data or the investigation of new material, such as would be indispensable for the formulation of any well-considered long-term policy. Dealing with this latter aspect, and as a preliminary to the eventual designing of a new framework, the third main recommendation of the Informal Conference was that an All-India Rural Credit Survey should be planned and conducted under the auspices of the Bank."[1]

(4) *The memorandum submitted to the Planning Commission by a foreign expert on agricultural credit* (1954)

It is in the context generally of the measures taken by the Reserve Bank in pursuance of its new policies, including those mentioned in the preceding extract, but with special reference to such of those measures as are directly related to the co-operative credit system, that the following observations find a place in the memorandum :

" Frequent references have been made [in the memorandum] to the role of the Reserve Bank of India in providing leadership and financing for the co-operative credit system. To an observer from abroad, this is one of the most interesting aspects of current rural credit developments in India . . . . The Reserve Bank has been giving new life and potent leadership to the co-operative credit movement in recent years. Probably, no other Central Bank in the world is doing as much to help, develop and finance co-operative rural credit institutions."

Background of change

2. Considered along with the remarks of the National Planning Committee, this last statement would seem to indicate that a change, not only very significant, but also very considerable, has taken place both in the Bank's conception of its role in rural credit and its actual policies and practices, as compared with the position up to, at any rate, 1947. While noting that the views expressed are in both cases those of authorities prima facie competent to form informed judgements, we are not at the moment concerned with examining whether or not the change in the Reserve Bank's attitude and role has been really as great as it might be made to appear by merely juxtaposing the two comments. That there has been a change is undeniable. It is also true that much of the criticism which, in this context, used to be levelled at the Reserve Bank in the past, and which to a lesser extent is even now on occasion levelled at it, has tended to ignore the fact that the Central Bank of a country cannot initiate credit policies which are in advance of, or are otherwise out of relation to, the policies of Government as they express themselves in the wider sphere of legislation and development, within which alone a credit policy can have significance. For, a forward and progressive policy in agricultural credit would obviously have been unworkable when Government was unable or unwilling itself to pursue a progressive policy in respect of the conditions within which agricultural credit must operate. If, for example, tenures continued to be such that they inhibited the interest of the farmer in his land, if tenancy laws did not afford sufficient protection to the tenant, and if agricultural development generally was not the subject of a comprehensive and adequately financed national programme, it would have been futile to expect the Central Bank of a country to initiate a dynamic policy of agricultural finance. Thus, for such change as may be noticeable in the policies of the Reserve Bank, part of the

[1] Pp. 24-6.

reason must be attributed to a change in governmental policy itself since independence, i.e., subsequent to the observations we have quoted from the Report of the National Planning Committee. Account has also to be taken of the fact that the Reserve Bank, from being a shareholders' institution, albeit even then subject to the control of the State, has since become a fully nationalized institution. To whatever factors in their combination attributable, the main point to notice is that there has been a very real change in the attitude of the Reserve Bank towards rural finance generally and co-operative credit for agriculture in particular. A study of the stages of this change, its content and its limitations, will obviously not only be relevant to our present purpose, but of importance for singling out those points of significance which may help us to say of certain lines of policy that they contain promise of future development. Accordingly, we devote this chapter to a brief narrative of recent changes in the policies and practices of the Reserve Bank and of what has hitherto been achieved, or not been possible to achieve, as a result of those changes. In doing so, we may recall that the Reserve Bank itself, in the Report of its Central Board of Directors quoted earlier, has classified the different directions of action pursued by it, following the recommendations of the Rural Banking Enquiry Committee and the Informal Conference on Rural Finance, under two main categories which, reversed as to order, are :

I. Co-operative Rural Credit (*Informal Conference*)

Action for

(1) enabling the Reserve Bank to function more effectively within the existing framework,

(2) enlarging the framework, so far as that could be readily decided upon and carried out, and

(3) eventually designing a new and co-ordinated framework in the light of facts to be ascertained.

II. Rural Banking

(*Rural Banking Enquiry Committee*)

Action for bringing about conditions for

(4) co-operative banks to extend beyond the town to the village, and commercial banks, beyond the bigger to the smaller town,

(5) the Imperial Bank to extend beyond banking treasuries to non-banking treasuries, and

(6) the Reserve Bank to extend beyond Part A States to Part B States.

Provisions of the Reserve Bank of India Act

3. We shall relate our review to the foregoing items in that order. Before doing so, however, it is necessary to refer briefly to the statutory functions and powers of the Reserve Bank in regard to agricultural credit, noting at the outset that, while the statutory functions have remained the same, the powers have in certain respects been enlarged by recent legislation which took account of the recommendations of various committees and, in particular, of the Informal Conference referred to above. One set of the relevant

amendments to the Reserve Bank of India Act is contained in legislation passed in 1951, and the other in legislation which is not many months old, as it was passed at the end of 1953.

Statutory functions

The broad functions are set out in section 54 of the Reserve Bank of India Act as follows:

"The Bank shall create a special Agricultural Credit Department the functions of which shall be—

"(*a*) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, state co-operative banks, and other banking organizations,

"(*b*) to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with state co-operative banks and any other banks or organizations engaged in the business of agricultural credit."

Statutory powers to grant financial accommodation to co-operative banks

(a) *Before 1951*

(i) Under sections 17(2)(b) and 4(c) of the Reserve Bank of India Act, the Bank was authorized to rediscount or make advances to state co-operative banks (or scheduled banks) against bills of exchange or promissory notes, maturing within nine months, and drawn for the purpose of financing seasonal agricultural operations or the marketing of crops.

(ii) Under section 17(4)(a), the Bank was authorized to make short-term advances to state co-operative banks (or scheduled banks) against Government or trustee securities.

(iii) In terms of section 17(4)(d), the Bank had the authority to make short-term advances on the promissory notes of state co-operative banks (or scheduled banks) supported by documents of title to goods, such documents having been transferred, assigned or pledged to such banks as security for a cash credit or overdraft, granted for bona fide commercial or trade transactions or for the purpose of financing seasonal agricultural operations or the marketing of crops.

(b) *Additions and changes in 1951 and 1953*

Amendments in 1951 and 1953

4. The first of two amendments passed in 1951 related to section 17(2)(a) of the Reserve Bank of India Act, and, in regard to the purchase, sale or rediscount of bills of exchange and promissory notes arising out of bona fide commercial or trade transactions, placed state co-operative banks on the same footing as scheduled banks. The second amendment related to section 17(2)(b) of the Act; it increased the period of accommodation for seasonal agricultural operations and marketing of crops from 9 months to 15 months. Both these had been recommended by previous committees and supported by the Informal Conference.

More far-reaching changes in the Act were introduced in 1953 on the basis of recommendations made by the Informal Conference. These changes were as follows:

(i) Section 17(2)(b) of the Act was amended to give a wider interpretation to the terms 'agricultural operations', 'crops' and 'marketing of crops' so as to include within its purview '*mixed farming*' activities (i.e., activities undertaken jointly with agricultural operations) and the *processing of crops*, prior to marketing, by agricultural producers or any organization of such producers.

(ii) A new section, viz., 17(2)(bb) was added to empower the Bank to rediscount bills of exchange or promissory notes of state co-operative banks and state financial corporations drawn for the purpose of financing the production or marketing activities of *cottage and small-scale industries* approved by the Bank and maturing within 12 months, provided the payment of the principal and interest of such bills of exchange or promissory notes is guaranteed by the State Government.

(iii) A new section, viz., section 17(4A) was added enabling the Reserve Bank to grant *medium-term* loans to state co-operative banks for agricultural purposes, for periods not less than 15 months and not exceeding 5 years provided that such loans are guaranteed by the State Government, do not exceed the owned funds of such banks and do not at any time exceed Rs 5 crores in the aggregate.

The enlargement of powers, it will be noticed, is principally in relation to:

(i) Ability to give short-term accommodation for longer periods than before. (The Bank normally does so for 12 months now, in place of 9 months before the amendment; the maximum now permissible is 15 months, but this hardly needs to be invoked except probably for special crops such as sugar-cane.)

(ii) Ability, for the first time, to give short-term accommodation for certain purposes (*a*) not strictly agricultural, but ancillary to agriculture ('mixed farming', e.g., livestock-breeding by the cultivator) or (*b*) not strictly part of agricultural productive activity or of agricultural marketing activity, but intermediate to the two and vitally connected with both (viz., processing of agricultural commodities).

(iii) Ability, for the first time, to give short-term accommodation (up to 12 months) for approved categories of cottage and small-scale industries, subject to guarantee by State Government.

(iv) Ability, for the first time, to give medium-term accommodation for agriculture (subject to guarantee by State Government, up to the size of owned funds of the state co-operative bank seeking the loan and to an overall limit of Rs 5 crores relatable to the owned funds of the Reserve Bank itself).

Review of recent developments

5. We shall now turn to a review of the steps taken in the last few years by the Reserve Bank in pursuance of the more positive policies which it has adopted in the sphere of rural finance. In doing so, as we have said, we shall take up each of the distinct lines of action specified by the Board of Directors in their Report for 1951-2 from which we have quoted.

STEPS FOR ENABLING THE RESERVE BANK TO FUNCTION MORE EFFECTIVELY WITHIN THE EXISTING FRAMEWORK

Important procedural changes

6. Certain important changes were introduced in the procedure followed by the Reserve Bank, in respect of accommodation to state co-operative banks, in conformity with the recommendations of the Informal Conference. According to the revised procedure which is now in force, the stipulation previously made that all loans and advances should be repaid by a fixed date, viz., 30 September each year, has been given up and each drawal is treated as a separate loan. The credit limit fixed is related not to borrowings irrespective of repayments, but to the total amount outstanding on any day during the relevant period. These procedural changes have enabled state co-operative banks to make freer and fuller use of the financial accommodation provided by the Reserve Bank. The amount drawn by them in respect of such accommodation at the end of June 1953 totalled Rs 1,190.37 lakhs as compared with Rs 537.80 lakhs in 1950-1, Rs 16.80 lakhs in 1947-8 and Rs 1.25 lakhs in 1945-6. Obviously, the maximum advantage from the procedural changes is likely to have been derived by co-operative credit structures already well established, e.g., the state co-operative banks in Madras and Bombay (considered together with their central banks, branches and primary societies). For these two States, the more recent figures are as follows :

Year	Madras Rs (in lakhs)	Bombay Rs (in lakhs)
1949-50	156.00	66.00
1950-1	224.50	216.00
1951-2	453.73	618.50
1952-3	470.60	466.68[1]

[1] The diminution in the Bombay figure for 1952-3 was due to (i) release of the funds of the co-operative societies and banks from the distribution of controlled commodities and (ii) low level of operations on account of scarcity conditions.

It may be noted that the concessional rate of interest at which the accommodation is made available has continued to be $1\frac{1}{2}$ per cent even after the Bank Rate was raised from 3 per cent to $3\frac{1}{2}$ per cent in November 1951.

Policy has also been liberalized in regard to the purchase of debentures of central land mortgage banks. The Reserve Bank now takes up 20 per cent of such debentures instead of 10 per cent as previously.

7. Along with these steps intended to make accommodation from the Reserve Bank more liberal, the Informal Conference also suggested that there should be closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank on the other. In this context, they suggested the establishment of a Standing Advisory Committee on Agricultural Credit. This recommendation has been implemented by the Reserve Bank. A Standing Advisory Committee on Agricultural Credit, consisting of 14 members, was set up in July 1951 for advising the Reserve Bank 'on matters pertaining to its Agricultural Credit Department and subjects allied to those matters'. The Committee has so far met three times. Besides reviewing the work of the Agricultural Credit Department and giving advice on the various points raised, the Committee has done very useful work by way of evolving suitable standards with regard to different aspects of co-operative banking and administration such as the maintenance of fluid resources, uniformity of audit classification, etc.

Standing Advisory Committee

STEPS FOR ENLARGING THE FRAMEWORK SO FAR AS THAT COULD BE READILY DECIDED UPON AND CARRIED OUT

8. We have already referred to the legislative enlargement of the Reserve Bank's role in the sphere of rural credit in various directions. Another very significant development here has been that the Reserve Bank organized a series of visits by its officers to Part A, Part B and Part C States with a view to aiding the formulation, by the authorities concerned, of plans for the reorganization of the co-operative credit movement in the different States. Such plans have since been drawn up for all States (with the exception of Jammu and Kashmir). In many cases, an essential part of the plan was the creation of a state co-operative bank (through which alone the Reserve Bank can provide finance to the co-operative credit system) in States where one did not exist before. State co-operative banks have been newly set up, under this programme, in the following States :

Plans for reorganization

Saurashtra,
PEPSU,
Rajasthan,
Madhya Bharat,
Travancore-Cochin, and
Himachal Pradesh.

In a number of States, state co-operative banks were, of course, already in existence. For some of these, considerable reorganization was recommended by the Reserve Bank, and progress on these lines has been made in various States such as Hyderabad, Mysore, Punjab and West Bengal.

9. Whether the problem was one of establishing a new apex bank or of reorganizing an existing one, the Reserve Bank has in all suitable cases advised a policy of State partnership including contribution to share capital. In this manner, the total contribution so far made (in a few cases proposed to be made) by State Governments to the share capital of state

State participation in share capital

co-operative banks is a little over Rs 70 lakhs, taking the concerned States together, as will be seen from the following figures:

(Rs in lakhs)

New state co-operative banks	Year of establishment	Total share capital		Contribution to share capital made or proposed to be made by State Government
		Authorized	Paid-up as on 31-3-1954	
1	2	3	4	5
Saurashtra .. .	1951	20.00	6.36	5.00
PEPSU	1953	15.00	3.97	3.00
Rajasthan .	1953	20.00	5.39	5.00
Himachal Pradesh .	1953	50.00	n.a.	5.00
Madhya Bharat .	1953	25.00	1.07	5.00
Travancore-Cochin ..	1954	20.00	6.80	5.00

n a.: Not available.

(Rs in lakhs)

Existing state co-operative banks	Year of commencement of reorganization	Total share capital		Contribution to share capital made or proposed to be made by State Government
		Authorized	Paid-up as on 30-6-1953	
1	2	3	4	5
Assam	1953	350.00	2.21[1]	10.00
Hyderabad .. .	1952	25.00[2]	0 89	4.29
Mysore . .	1952	10.00	9.29	5.00
Punjab	1953	50.00	11.44[3]	10.00
Vindhya Pradesh ..	1952	10.00	0.21[4]	1.00
West Bengal	1952	100.00	28.15	15.00
Grand Total .	..	..	..	73.29

Note—The amount of share capital given in column 4 includes contribution actually made by State Governments; thus (i) in the case of Saurashtra, PEPSU, Rajasthan, Travancore-Cochin and Mysore. the full amount of the contribution shown in column 5 and a contribution of Rs 2.57 lakhs in the case of Hyderabad are included under column 4; (ii) in West Bengal, the contribution of Rs 15 lakhs made by the State Government is not included in column 4, because it is held in suspense account, pending settlement of certain outstanding issues; (iii) in the case of other States, column 4 includes no State contribution at all, since none was actually made.

[1] As on 31-12-1952; excludes Rs 0.09 lakh in share suspense account.

[2] Osmania currency.

[3] Excludes Rs 0.92 lakh in share suspense account.

[4] As on 30-6-1952.

All this has taken place during the last two or three years and the programme as a whole is still in process of development. Limited as it inevitably is by available financial, administrative and other resources, principally of the State Governments, the line of development itself is obviously of great significance for our present purposes, the point particularly to be noted being the possible further potentialities of purposive collaboration between the Reserve Bank, which is uniquely in a position both to provide the credit and to co-ordinate its structure and operations, and the State Governments which feel the need for the credit and have direct responsibilities, as well as the requisite powers, for carrying out the reforms and reorganization.

The plans formulated do not stop with the creation or reorganization of state co-operative banks. Indeed, they broadly cover the entire co-operative credit structure including proposals for the rationalization of central financing agencies and the establishment of a proper network of primary credit societies, since these are basic to the Movement.

Plans have also been formulated for the establishment of new central land mortgage banks and reorganization of existing ones. New central land mortgage banks have, within the last few years, been organized in Saurashtra and Hyderabad with the following share capital:

Name of central land mortgage bank	Year of establishment	Total share capital[1] (Rs lakhs)	Contribution to share capital by State Government (Rs lakhs)
Saurashtra	1951	7.69	5.00
Hyderabad	1953	1.27	1.00

[1] As on 30-9-1953.

10. **Promotion of training facilities** Obviously, no co-operative development, even if only credit development of the order envisaged, would be possible without organizing efficient training arrangements on an extensive scale, at all levels, and for a large personnel, existing as well as new, and pertaining to co-operative institutions as well as co-operative departments. The Reserve Bank soon found that this need, which was great enough in many Part A States, was even greater in most Part B and Part C States, especially those which had to make up their cadres as best as they could from the heterogeneous personnel of two or more pre-existing Indian States. Accordingly, at an early stage, the Reserve Bank provided both the finance and the initiative for organizing such training, and in collaboration with the Bombay Provincial Co-operative Institute, organized an all-India training centre for co-operative personnel at Poona. Two courses are provided at the centre. One is a short-term course of six months for training the higher officers of co-operative departments and the executives of state co-operative banks etc. The other is a long-term course of one year for training officials and non-officials a step lower in the rung of responsibility, i.e., the 'intermediate' staff. Practical training forms an important part of the training scheme and a certain degree of specialization is provided.

Twenty-two States have so far taken advantage of the scheme—Assam, Bihar, Bombay, Madhya Pradesh, Madras, Orissa, Punjab and West Bengal among Part A States; all the seven Part B States; and, among Part C States, Ajmer, Bhopal, Coorg, Himachal Pradesh, Manipur, Tripura and Vindhya Pradesh. Since the inception of the scheme in April 1952, four short-term courses and one long-term course have been completed. In the four short-term courses, 76 candidates have been trained. In the long-term course, 29 candidates have been trained: and 36 are attending the second course now in session. About two-thirds of the candidates trained have been from Part B and Part C States.

Later in this chapter, reference is made to the further expansion of this scheme, as part of a programme in the First Five Year Plan. We may meanwhile note certain difficulties and limitations: (1) even though the financial concessions given are appreciable, many co-operative institutions and even some State Governments are unable or reluctant to spend the larger amounts necessary for taking greater advantage of the scheme; (2) while one centre would probably suffice for a long time to come for the higher staff (and in any case personnel which is competent to impart training at this level is itself limited), several more centres on a 'regional' basis would be required, if full advantage is to be taken by Governments and co-operative institutions of the arrangements to train the 'intermediate' staff, and (3) the important sector of 'subordinate' staff, for which training would ordinarily have to be organized within each State, is left out of the scheme. The Reserve Bank has taken the initiative; it can hardly be expected, of itself, to expand the scheme to its logical conclusion; the Central Government must obviously come in, both for finance and for co-ordination, and there has also to be non-official co-operative participation in the scheme: in actual fact. these are the directions in which the scheme has developed, as will be seen when we advert to the Five Year Plan in this context. We make no apology for dwelling on the theme of training here or for coming back to it at more than one subsequent place in the Report, for, in many ways, the training of personnel in the right numbers and in the right manner is the most crucial prerequisite for the success of the proposals we shall later make in this Report.

At this point, however, there is one other scheme of training, also sponsored by the Reserve Bank and proposed to be largely subsidized by it, to which it will be convenient for us to refer, because we shall have occasion to allude to it again in connexion with some of our recommendations. This scheme relates to the training of certain grades of the personnel of commercial banks, broadly corresponding to the supervisory' level. The training is intended to be essentially practical and therefore supplementary to the theoretical courses already available in the country; thus, arrangements are proposed to be made for the candidate familiarizing himself with the practical aspects of commercial banking through a demonstration, with actual forms and documents, of the problems and situations likely to arise in practice. Similar courses of training, it may be mentioned, have long been available as adjuncts to some of the bigger banks in the United Kingdom and elsewhere and two experts have been made available from the United Kingdom under the Colombo Plan to help to organize the college which is about to be established in Bombay. A strong committee of commercial bankers has been in charge of the formulation and initial implementation of the scheme. The significance of this institution, and of similar or subsidiary institutions which may hereafter be established by the Reserve Bank, for some of the recommendations we shall make in a subsequent part of the Report, will be explained at the relevant places.

11. Apart from the initiation of plans for the reorganization of the co-operative credit structure in the various States and for the training of their co-operative personnel, the Reserve Bank, pursuing one of the recommendations of the Informal Conference, has undertaken a scheme of 'voluntary' inspections of co-operative banks, especially of those who borrow, or seek to borrow, from it. A beginning has already been made by the Agricultural Credit Department with some of the apex banks, central co-operative banks and land mortgage banks, in Bombay, Madras, Madhya Pradesh, etc. Under the guidance of the Standing Advisory Committee, the scheme of inspections has been so designed as to be both constructive and, in its broad details, complementary to, and not in duplication of, the inspections within the machinery of the State Government, such as those conducted by the Registrar of Co-operative Societies.

Inspection of co-operative banks

STEPS FOR EVENTUALLY DESIGNING A NEW AND CO-ORDINATED FRAMEWORK IN THE LIGHT OF FACTS TO BE ASCERTAINED

12. While, as noticed in the preceding paragraphs, the functions exercised by the Reserve Bank in regard to the provision of rural finance have been made more effective in certain respects or the framework itself expanded in certain others, there remains the vital question of formulating a long-term plan of rural finance in regard to both policy and organization. It was in this context that the Informal Conference felt that a detailed investigation of the facts on a country-wide basis was a necessary preliminary. This recommendation was accepted by the Reserve Bank. The present All-India Rural Credit Survey, as we have already said in Chapter 1, is the outcome.

The Rural Credit Survey

ACTION FOR ENABLING CO-OPERATIVE BANKS TO EXTEND BEYOND THE TOWN TO THE VILLAGE AND COMMERCIAL BANKS BEYOND THE BIGGER TO THE SMALLER TOWN

13. As regards this item, the Rural Banking Enquiry Committee made detailed suggestions for the provision of better facilities, including cheaper remittance of funds, for banks generally, including co-operative banks. The Reserve Bank accepted these suggestions and, accordingly, with effect from 1 September 1951 the rates of exchange on remittances issued on behalf of commercial banks, co-operative banks and societies and indigenous bankers, from the offices of the Reserve Bank, branches of the Imperial Bank and such treasuries and sub-treasuries as maintain chests of the Issue Department of the Reserve Bank have been reduced as indicated below. The former rates were :

Remittance facilities

Up to Rs 5,000	at 1/16 per cent (minimum Re 1)
Over Rs 5,000	at 1/32 per cent (minimum Rs 3-2-0)

These have now been reduced to:

Up to Rs 5,000	at 1/32 per cent (minimum Re 1)
Over Rs 5,000	at 1/64 per cent (minimum Re 1-9-0)

Moreover, scheduled banks and such state co-operative banks as maintain accounts with the Reserve Bank, are now entitled to transfer funds from branches of the Imperial Bank to any account with the Reserve Bank, whether or not they maintain accounts with the Imperial Bank or have offices at places from which remittances are desired. Various steps have also been taken for increasing the facilities available for the conversion and exchange of notes and coin and also for the reform of sub-treasuries and treasuries. These measures, it is obvious, have an important bearing on the question of spreading banking facilities in the rural areas.

ACTION IN REGARD TO THE BRANCH EXTENSION OF THE IMPERIAL BANK AND CONSEQUENT CONVERSION OF A LARGER NUMBER OF NON-BANKING TREASURIES INTO BANKING TREASURIES

Branch extension of the Imperial Bank

14. One of the important recommendations of the Rural Banking Enquiry Committee was that banking facilities should be enlarged through an increase in the number of offices of the Imperial Bank and, consequently, of the currency chests held by that bank on behalf of the Reserve Bank. Negotiations between the two banks took place in 1951-2 in pursuance of this recommendation, and it was agreed that the Imperial Bank should open about 30 new branches before the end of June 1953 besides converting some of its existing treasury pay offices into branches. As a result, the Imperial Bank opened during this period 26 new branches; it also converted 8 treasury pay offices into branches. The second phase of the expansion programme has since been agreed upon after similar negotiations. It is intended that 75 new branches should be opened and 5 treasury pay offices converted into branches during the three year period ending 30 June 1956, making in all more than a hundred new branches, and more than a dozen 'converted' branches during the full quinquennium. We shall have occasion in the next chapter to revert in greater detail to this extremely important subject.

ACTION IN REGARD TO THE EXTENSION OF THE RESERVE BANK BEYOND PART A STATES TO PART B STATES

Reserve Bank as banker to Part B States

15. This again is a subject of great importance which will be dealt with at length in the next chapter. Meanwhile we may note that, as a result of the negotiations conducted by the Reserve Bank with the different Part B States, as many as five of them, viz., Madhya Bharat, Travancore-Cochin, Hyderabad, Mysore and Saurashtra have appointed the Reserve Bank as their sole banker. Further, in two States, viz., Hyderabad and Mysore, the respective State-associated banks have been appointed as the agents of the Reserve Bank. With most of the other States, there are either certain issues which remain to be settled, or a stipulated period which has to pass, before the further step of appointing an agent is considered.

Apart from this, the Reserve Bank itself, under its programme of branch extension, has recently opened an office at Bangalore and a section of the Department of Banking Operations at Trivandrum.

THE RESERVE BANK AND 'RURAL FINANCE' AS IT FIGURES IN THE FIRST FIVE YEAR PLAN

The Reserve Bank and rural finance in the Plan

16. We have so far reviewed the action taken by the Reserve Bank broadly in pursuance of the recommendations made by the Rural Banking Enquiry Committee and the Informal Conference on Rural Finance. To complete the account, it is necessary now to allude briefly to the Reserve Bank's association with the formulation and implementation of the programme of rural finance (Government and co-operative) in the Five Year Plan, and the targets of that programme. The targets, it may be recalled, refer to the finance which is expected to be made available by Government and the co-operatives together, the latter with the assistance of the Reserve Bank, at the end of the Plan period, viz., the close of 1955-6. The relevant targets are Rs 100 crores per annum for short-term finance, Rs 25 crores per annum for medium-term finance and Rs 5 crores per annum for long-term finance. These targets (of which the first is the same as that recommended by the Grow More Food Enquiry Committee, subject however to some slight variation in the period to which it relates) were settled in consultation with the Reserve Bank. The Bank is attempting to ensure, so far as this lies in its own sphere of action, that at least an approximation to the targets is achieved by the end of the period of the Plan. The directions in which it hopes that progress will be made towards the targets are summarized in the following paragraphs.

Short-term credit

17. As regards short-term finance, the Reserve Bank expects that, with the reorganization of the co-operative credit structure which is taking place in several States, and in which the Reserve Bank is collaborating with the State Governments, a number of States which have not hitherto been able to avail themselves of credit facilities from it will be able to do so now for the first time. The following table which shows the credit limits sanctioned by the Reserve Bank to some of the newly established or recently reorganized state co-operative banks may be seen :

Name of the state co-operative bank	Credit limit (Rs lakhs)
Saurashtra	11.00
PEPSU	10.00
Assam	45.00
Punjab	80.50
Hyderabad	25.00

It is also expected that the other States would be able to make increasing use of these facilities. Stress is laid on the responsibilities of the co-operative organizations themselves, in the matter of administrative reorganization, strengthening of supervision, and mobilizing of internal resources, including share capital and deposits. Increasing provision of short-term finance under the various Government schemes, and in particular the grow-more-food programme, is also taken into account in forming the expectation that it will be possible to approach the target.

18. As regards medium-term credit, reference has already been made to the recent amendment to the Reserve Bank of India Act enabling the Bank to provide such credit up to Rs 5 crores. There are, besides, the medium-term resources, though these are not substantial, of the co-operative credit institutions at the apex, district and primary levels. Further, the schemes of re-organization already referred to, if successfully implemented, should imply, *inter alia*, an increase in these resources. An appreciable diversion of them to medium-term credit needs will also be made possible by the increasing volume of short-term accommodation available from the Reserve Bank. Here again, account is taken of the provisions made, and to be made, by the Central Government for medium-term agricultural finance.

Medium-term credit

19. As regards long-term credit, the Reserve Bank, as we have seen in an earlier paragraph, helps indirectly by taking up debentures floated by central land mortgage banks to the extent of 20 per cent (as compared with 10 per cent previously). Acting together in one or two instances, the Government of India and the Reserve Bank have recently shown their preparedness to purchase 40 per cent of the particular issue of debentures (or the shortfall after taking into account the purchases by other investors, whichever is smaller). This larger purchase is made conditional on the land mortgage bank undertaking to take the measures necessary for ensuring that a stipulated portion of its finance is positively directed to productive purposes. We mention this development as we consider it to be very clearly in the right direction.

Long-term credit

20. Apart from these targets relating to credit, the First Five Year Plan has made provision for a sum of Rs 10 lakhs for subsidizing the organized training of co-operative personnel. Here again, acting conjointly, the Government of India and the Reserve Bank have set up a Central Committee for Co-operative Training in November 1953. The Committee gets its finance partly from the Reserve Bank and partly from the Government of India, the total at the moment being of the order of Rs 10 lakhs per annum. The Committee is presided over by an eminent non-official co-operator. Starting with the nucleus already built up by the Reserve Bank, it has drawn up a country-wide scheme of co-operative training, which includes the expansion of the all-India course at Poona for higher personnel, the establishment of five regional centres (including the second of the two courses at Poona) for 'intermediate' personnel, and a programme for raising the level of training of the subordinate personnel of the co-operative departments and institutions of different States through a system of conditional subsidies. In order that, as far as possible, the prospects of success of that part of the programme which covers the training of higher and intermediate personnel may be placed beyond the financial inhibitions of individual State Governments and co-operative institutions, the following concessions have been decided on and notified to those concerned by the Committee :

Training of co-operative personnel

(1) *For higher personnel*

(*a*) Free tuition.

(*b*) Payment of travelling allowance: single second class fares for the journeys (i) to and from the training centre, and (ii) on the tours connected with practical training.

(c) Rent-free lodging.

(d) Monthly stipends: to meet part of the cost of boarding, Rs 75 per month while at the training centre and Rs 100 per month while on tour.

(2) *For intermediate personnel*

(a) Free tuition.

(b) Payment of travelling allowance: single intermediate class fares for the journeys (i) to and from the training centre, and (ii) on the tours connected with practical training.

(c) Rent-free lodging.

(d) Monthly stipends: to meet part of the cost of boarding, Rs 50 per month while at the training centre and Rs 75 per month while on tour.

The big task before the Central Committee for Co-operative Training forms the subject of the recommendations in Chapter 39.

Certain factors which retard the Reserve Bank's programme

21. We have briefly recounted in the previous paragraphs the more important of the policies followed and steps taken by the Reserve Bank in pursuance of the positive and constructive role it has now adopted in the sphere of rural banking, credit and finance. For a proper perspective, however, it is necessary to mention certain considerations, many of them arising from factors outside the control of the Reserve Bank, which set a limit to the efficacy of any programme of rural credit in which the Bank's policies and measures are not supported and complemented by corresponding policies and organizational effort elsewhere. The more important of these factors, apart from those connected with wider issues such as economic development, are mentioned below.

Defective operations of co-operative credit

22. Without a thorough reform of the operations of the co-operative credit structure and in particular of the primary credit structure, which its policies can only stimulate but not bring about, it would not be possible for the Reserve Bank to ensure that the whole of the credit provided by it is actually transmitted to where it is intended and not diverted in varying degrees to needs other than rural and purposes other than agricultural. Even more difficult is it to ensure, without such reorganization, that the credit reaches the medium and small cultivator, since for much the larger part he is at present outside Co-operation itself. The many and great difficulties which come in the way have been pointed out by us; most of them are obviously outside the control of the Reserve Bank and even outside the framework of the advantages, inducements and incentives it can at present offer and, therefore, of the persuasion it can effectively exercise. The impediments are basic and unless they are boldly faced and surmounted with determination, there will always remain a major, in fact a fundamental, organizational barrier to the proper percolation of finance from the Reserve Bank. Nor, unless the drawbacks are removed, will it be possible to ensure progress in the mobilization of local resources of finance. Only the building up of resources may ultimately render it possible for the Reserve Bank to function as the supplementary source of finance it might ordinarily expect to be, instead of the major

participant which, as a result of its new policies, it now largely is. In regard to the diversion of co-operative funds to traders and other individuals, for example, as distinguished from members of primary societies, the Reserve Bank's inspection machinery, once it is strengthened and expanded, will undoubtedly play an important role and constitute a very useful check, but, for obvious reasons, no inspection machinery can achieve this purpose if the structure itself is ill-adapted for it.

Inadequate owned funds and borrowing capacity of co-operatives

23. In respect of the whole structure, apex, central and primary, another major difficulty of the Reserve Bank is that, if that particular canon of prudent banking which relates borrowings to owned funds as a multiple thereof is to be observed, then the total amount by which it is able to supplement other resources is obviously limited to the extent of such owned funds at different levels of the structure. Relaxation of the maximum borrowing limits, if and where appropriate, will help only to some extent; unless the owned funds themselves are very largely increased, the fullest possible use will not have been made of the accommodation which the Reserve Bank can make available.

Inefficient set-up of the co-operative credit structure

24. Connected with the weakness of the financial structure is the extremely weak and inefficient organizational set-up of many state and central co-operative banks and, of course, the primary societies. Here again, even though the proper utilization of the Reserve Bank's funds and the degree of success with which it can pursue its policies are clearly dependent on the efficiency of supervision, audit, etc., the Bank can only help positively by the means which it has already adopted, viz., of going to the maximum possible extent in the matter of subsidizing and providing training facilities for co-operative personnel ; the only other way in which it can influence this situation is for it to say, as it is often compelled to say now, that it will not lend or that it will lend less, unless certain specified reforms are carried out by the administration or institution concerned.

Difficulties in the way of larger provision of medium-term credit

25. An important point in this connexion is the inadequacy of the medium-term credit now available through the co-operative channel. Unless the share capital of the state co-operative banks and central co-operative banks is largely increased, however much the ability of the Reserve Bank to lend under the recent amendment of its statute—and in fact this is not very great, since, as we have seen, there is an overall limit of Rs 5 crores—it is obvious that progress is not likely to be great and that, having proceeded to a particular point, it will tend to stop there.

Reluctance of co-operatives to increase their operations

26. It has also been within the experience of the Reserve Bank that individual institutions such as central co-operative banks of certain districts are at times reluctant to increase their finances, by borrowing or otherwise, even though their financial structure and financial capacity may be such as to enable them readily to do so. Quite often the reason for this, as we have explained, is to be found in the fact that the Movement, as it stands, is hesitant about financing further groups of cultivators, a large number of whom it holds to be non-creditworthy

Absence of licensed warehouses

27. Further, it has not been possible for the Reserve Bank to provide marketing finance under section 17(4) (*d*) of its Act, under which it has the authority, to make advances on the promissory notes of state co-operative banks etc., supported by documents of title to goods which satisfy certain conditions. Owing to the absence of licensed warehouses, this section has hitherto remained inoperative.

Land mortgage banks: Financial contribution of State Governments

28. Not only in regard to the short-term and medium-term credit structure, but also, and particularly, in regard to land mortgage banks, the difficulty which the Reserve Bank faces is that State Governments are not, in many cases, willing or perhaps even able to make the financial contribution necessary for establishing new land mortgage banks, or reorganizing the old, with the full amount of share capital required. In most cases, indeed in practically all, it is unrealistic to expect that co-operative societies and individuals by themselves would be able to contribute more than a small part of the requisite share capital. This, as well as the fact that the Reserve Bank's statute does not, as it stands, enable it to accommodate land mortgage banks otherwise than by the purchase of debentures, greatly restricts its ability to persuade State Governments to help set up such institutions.

Other difficulties

29. We do not here deal with other sets of difficulties experienced by the Reserve Bank, e.g., those concerned with the Imperial Bank and other State-associated banks (to which the next chapter is devoted) or with money-lenders whose methods, as we have seen, are so far removed from institutional requirements as to make it obvious that their place within a scheme integrated with the Reserve Bank cannot help being as unimportant as their place outside it today is undoubtedly important. There are also the indigenous bankers. The difficulties experienced by the Reserve Bank in its efforts to bring them into some kind of institutional relationship with itself are dealt with elsewhere.

We have enumerated several limitations. These, however, only emphasize the urgent need for an integrated scheme in which all agencies of finance can be co-ordinated, and the scheme itself supported by similarly co-ordinated action in other and interrelated spheres of economic activity. Subject to these considerations, the Reserve Bank's recent record, as set out in the previous paragraphs, reveals in our opinion many lines of development of great significance for the formulation of a more comprehensive plan of rural credit, rural banking and rural finance.

CHAPTER 24

RECORD OF THE IMPERIAL BANK AND OTHER STATE-ASSOCIATED BANKS

Commercial banks and agricultural credit

WE saw in Chapter 15 that the part occupied by agricultural credit in the transactions of commercial banks was very small. In particular, direct accommodation to the agriculturist as distinguished from the trader in agricultural commodities was insignificant; the medium and small cultivator of course did not enter the picture at all; and it was only in a few exceptional cases that the bigger agriculturist was able to get loans from commercial banks. All this is readily explicable in terms of the preference of commercial banks for personal security and for security in the shape of goods in their custody as distinguished from one dependent upon immovable property.

At the same time we noticed that commercial banks played a less insignificant, even an appreciable, part in financing agricultural commodities as they moved in stages from the primary market to the consumer. This was particularly true of commercial crops such as cotton, groundnut and tobacco. Hence the phenomenon of branches of commercial banks clustering around the trade centres situated in cash economy areas. The finance, as we noted, was usually given to the trader, the processor and in some cases the moneylender-cum-trader who provided the link between the urban marketing centre and the villages from which the produce was brought. The commercial bank usually gave the loans on the security of produce kept under its control, i.e., under its own lock and key. Briefly, therefore, the direct importance of the commercial bank has been for the trader, both big and small, in agricultural commodities, and not for their producer. Even in respect of trade, as we pointed out, the full potentiality of commercial banks has by no means been exploited. Some of the reasons which have inhibited co-operative agricultural finance in the interior, such as lack of good and adequate storage, have also stood in the way of commercial banks lending much more on agricultural produce. Further, the absence of licensed warehousing, except as a piece of legislation on the statute books of different States, has been a serious limiting factor. We shall in a later chapter make recommendations for the organized extension of storage and warehousing. If the course of action there suggested is pursued, we have no doubt that it will greatly help the extension of commercial banking in this particular sphere, just as we hope that it will also make possible a much larger volume of co-operative credit based on agricultural produce.

2. These general observations in respect of the part hitherto played by commercial banks in regard to agricultural finance will require to be significantly modified when we deal with a certain category of commercial banks which we have, in this chapter, grouped together under the heading 'The Imperial Bank and other State-associated banks'. It is necessary to deal with this category separately for certain very important reasons. Briefly, those reasons arise from the connexion which these banks have had with Government policy, including those aspects of the policies of different Governments which had a bearing on agricultural finance or on the provision of banking facilities in rural areas. The features of policy with which we are here concerned may be classed under two broad heads: (1) the extension of banking facilities and, in particular, of facilities for the cheap remittance of funds to the under-banked areas and (2) the deliberate promotion, by Governments, of the financing of agricultural commodities important to the economy of the country or of the particular State. On the whole, the former aspect has been much the more important in the case of the Imperial Bank, though the latter is not insignificant (especially where special circumstances have arisen in respect of particular commodities, as in the case of sugar). For the State-associated banks, the latter (i.e., accommodation on agricultural commodities, mostly to the trade, but in association with the policies of individual State Governments) has on the whole been of greater significance; the former has not been inappreciable, and, in the matter of extension of banking facilities to rural areas, has been particularly significant in many States. But, with one or two exceptions, it has of course not been of any significance in relation to arrangements for cheap remittance. These differences are only to be expected. The Imperial Bank, as the agent of the Reserve Bank in Part A and Part C States, has been practically the only banking institution hitherto authorized to make available remittance facilities through the currency chests established at its branches, whereas the other banks pertaining to this category—with the sole exception of the Hyderabad State Bank during the short period it functioned in effect as a Central Bank for the Hyderabad State--have not till recently had legislative or other sanction for being appointed as its agents by the Reserve Bank; the only other point to be added here being the recent development consisting of the appointment of the Hyderabad State Bank and the Bank of Mysore as agents of the Reserve Bank. On the other hand, it is equally true that the State-associated banks in the former Indian States have on the whole been more positively associated with the policies of their Governments than has the Imperial Bank with those of the Central Government or of the Governments of former 'Provinces'. We shall later explain the considerations which have led us to group together certain banks as 'State-associated banks' and to institute an analogy between this category and the Imperial Bank. Meanwhile, we may mention that the principal State-associated banks we have in mind are the State Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Jaipur, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore, the Hyderabad State Bank and the Travancore Bank. (As a matter of detail, to these may be added a certain number of relatively small banks which will also, eventually, have to be taken into consideration in this context, such as the Bank of Baghelkhand, the Manipur State Bank, the Mayurbhanj State Bank, the Sangli Bank, etc., besides a few other State-associated banks which are even more minor than these.) It is now necessary to consider in much greater detail such features of significance as exist in the record of (1) the Imperial Bank and (2) the other State-associated banks, in regard to

Special position of Imperial Bank and State-associated banks

extension of branches to rural areas, provision of banking facilities for Government, and provision of currency and remittance facilities. The other point concerning finance for agricultural commodities, in association, continual or occasional, with Government policies, may be borne in mind as something common to both categories of banks, but does not need to be further pursued.

Remittance facilities and Imperial Bank

3. Before reviewing the Imperial Bank's record in relation to the relevant items, it would be convenient to explain here, in as simple terms as possible, the manner in which the extension of that bank into rural areas is considered helpful for the development of banking generally and, in particular, for the provision of remittance facilities for Governments, banks and the public. Briefly, the position in India in this respect is greatly at variance with that in the United Kingdom and the United States of America, for example, where the extension of commercial banking on a large scale has resulted in a network of banks and branches which is spread over the length and breadth of the countries concerned and has permeated into semi-urban and rural areas to such an extent that the banking system itself provides the necessary machinery for the transmission of funds from one centre to another, whether rural or urban, with the minimum of cost. In India, as we have said, commercial banking has mainly followed the same lines of penetration as the cash economy. Hence the phenomenon we have described of banks clustering around certain relatively important trading and other centres, while at the same time conspicuous by their absence in large parts of the country. Nevertheless, there is one institution at least which requires frequent transmission of funds from place to place, all over the country and in different parts of it, irrespective of whether they are regions of cash economy or subsistence economy or of some other type. That institution is Government itself, viz., the State Governments and the Central Government. Now, obviously, in the absence of banks, a great deal of physical transfer of funds from place to place will be required if Governments are to meet their obligations to pay cash at different places and on different occasions. The revenues of Government do not come in uniformly over the financial year. Nor are they necessarily largest in those places where expenditure is heaviest. Further, relatively large payments have to be made at certain times, such as at the beginning of each month when salaries have to be paid. In these conditions, it ordinarily becomes necessary, in the absence of arrangements to mitigate this circumstance, to lock up large cash balances in the treasuries and sub-treasuries at district and taluka headquarters. The need for holding the money in cash arises, as we have already pointed out, from the absence of a sufficiently widespread banking system. At the same time, it is clear that the locking up of funds unnecessarily over long periods in a large number of places is a most uneconomical proposition because, if the system could by some means or other be rationalized and only minimum amounts enabled to be kept at these places, then larger resources would be available to Governments either for meeting their requirements at different places or, if the balance is sufficiently large, for investing it over suitable periods with profit to themselves. This aspect may be strikingly illustrated by citing the instance of Mysore where, as on 1 June 1950, in the absence of arrangements corresponding to those in Part A States, the total amount of cash maintained in 91 treasuries and sub-treasuries was of the order of Rs 1.91 crores as contrasted with Rs 3.81 crores in the 'treasury' balances of Government maintained in all the non-banking treasuries and all the non-banking sub-treasuries of Part A and Part C States

taken together (approximately 1,150 in number). How does it happen that Part A and Part C States are able to manage with much less cash in their treasuries and sub-treasuries? The explanation lies in the currency chests of the Reserve Bank which are established in Government treasuries and sub-treasuries, but which, wherever there is a branch of the Imperial Bank at the same place as the Government treasury or sub-treasury, are established in the branch of that bank. The latter is made possible by reason of the fact that the Imperial Bank is the agent of the Reserve Bank in Part A and Part C States at every place at which the Imperial Bank, but not the Reserve Bank, happens to have a branch. Since the Reserve Bank's branches are confined to relatively few places, i.e., Bombay, Calcutta, Madras, Delhi, Kanpur and, more recently, Bangalore, this means that in quite a large number of places it is the Imperial Bank that performs the function which would otherwise fall to be discharged by the branch of the Reserve Bank.

We may now examine what happens at a non-banking treasury, i.e., the treasury which conducts cash operations (in addition to the maintenance of accounts) because of the absence of a branch of the Imperial Bank. The currency chest in such a treasury (like a currency chest with the Imperial Bank) is the property of the Reserve Bank. The latter, as the Bank of Issue, has the unique property of being able to be in possession of currency notes which are not yet currency. The contents of the currency chests are of this description. The currency chest is placed in the possession of the treasury or sub-treasury officer concerned, as an official of the State Government which itself, in this matter, stands in a fiduciary relation to the Reserve Bank which has entrusted it with the currency chest. As a result of this arrangement, the treasury or sub-treasury need keep no more than a very small treasury balance in the form of cash. Whenever the payments made by the treasury or sub-treasury on a particular day exceed the limit of the treasury balance, the officer concerned draws upon the currency chest; in other words, he takes notes from the currency chest and utilizes them. Correspondingly, whenever the receipts on a particular day are such that there is an excess over the limit prescribed for the treasury balance, the excess is placed by him in the currency chest. In other words, what amounts to a banking transaction between the Government and the Reserve Bank, the latter represented by the currency chest, takes place in the treasury; and this transaction may be either a withdrawal from the Bank as in the first case or a deposit in the Bank as in the second case. This is possible because the State Government keeps the entirety of its accounts with the Reserve Bank which is its sole banker. These accounts relate to different places all over the State. Sometimes they represent transactions between one State Government and another State Government or between the State Government and the Central Government. All these transactions are eventually adjusted in the Central Accounts Section of the Reserve Bank at Calcutta. Daily advices are given as to the transactions, whether these be 'plus' or 'minus', between the State Government and the Reserve Bank, the latter as represented by its currency chest in each treasury or sub-treasury, and the balance as a whole is struck and the necessary adjustment made.

This, however, is only a part of the picture. Wherever there is a branch of the Imperial Bank, it is this bank which conducts the operations just described. It does so on behalf of the Reserve Bank on the one hand and of the State Government on the other. These transactions again, whether plus or minus, pass through a parallel line of adjustment leading up to the Central Accounts Section at Calcutta and are there

co-ordinated with the set of transactions relating to the non-banking treasuries and sub-treasuries of the Government concerned, i.e., treasuries and sub-treasuries at which the cash work is managed by the Government itself and not by the Imperial Bank. In this manner, by an arrangement which may be described as in essence that of treating the constituent himself as a part of the bank because of the trust which may be reposed in him and because of the precautions and guarantees surrounding the arrangement, it is possible to counteract to some extent the great inconvenience caused by the absence of a widespread network of banking in this country.

So far, we have dealt with such counteraction in relation to the cash transactions of State Governments. The same, of course, also applies to the Central Government. But there is another party to which the arrangement is of obvious importance, namely, the particular bank which, as the agent of the Reserve Bank, conducts the cash transactions of Governments wherever a treasury or sub-treasury happens to be situated at the same place as one of its own branches. In other words, the existence of currency chests is a great advantage to the Imperial Bank in regard to its own banking transactions. For, the same difficulties as present themselves to State Governments in the matter of remittance also confront the Imperial Bank. By an arrangement which, in essentials, is the same as that pertaining to the State Governments, the Imperial Bank is enabled to keep at its branches cash balances of a very small order. While thus, in comparison with the other commercial banks, it is the Imperial Bank that derives the main advantage from the arrangement, the advantage is by no means confined to it. For, wherever commercial banks have branches at the same places as the Imperial Bank, they make use of the Imperial Bank extensively for the remittance, inward and outward, of their own funds; and the arrangement described above enables the Imperial Bank to charge the commercial banks much less for this facility than it would otherwise have to. This is not possible to anything like the same extent when the currency chest is operated by a Government and not a bank. Hence the importance of the custody of currency chests by the Imperial Bank or some other banking agent as distinguished from the agency of Government itself as in treasuries and sub-treasuries which are 'non-banking'. In the latter case, apart from certain very restricted facilities, by way of remittance, offered to banks and the public, there is no effective machinery whereby the branches of commercial banks or, of course, of co-operative banks, can take advantage of the system. The treasury staff is not qualified for doing the work which the Imperial Bank can do; there is also the consideration that the Imperial Bank has its branches over a large number of places throughout India, through which remittances can be arranged for other banks, whereas Governments naturally cannot be expected to function as bankers wherever they have treasuries and sub-treasuries. The simple fact is that a treasury is not a bank; nor is a network of treasuries equivalent to the network of branches of a big bank.

The significance of the Imperial Bank in respect of remittance of money from place to place—and therefore in relation to the possibility of cheap transfer as required of the funds of commercial and co-operative banks—should now be obvious; and this is the key to the importance attached to a programme of extension to rural areas of the Imperial Bank of India. It may perhaps be added here that, besides the facilities available through the currency chests, there are a number of other important advantages which the Imperial Bank, as the Reserve Bank's agent, can offer in places where its branches are situated. Thus, it can make small coin available and also provide for the exchange of notes of smaller

denominations for those of higher denominations. This, moreover, is a facility which enables the Reserve Bank to retain a certain amount of control over the purity of note issue; soiled notes can be withdrawn periodically and fresh notes put in circulation in their place. Obviously, all these considerations lead to the conclusion that, from the point of view of remittance and allied facilities, the machinery of the Imperial Bank is of the utmost importance to Governments, other commercial banks, co-operative banks, and the public, and, therefore, to the Reserve Bank itself, just as it is also important to the Imperial Bank from its own point of view. The machinery of the Imperial Bank, if only because of its extensiveness, is essential for the efficient discharge of this and several other functions of the Reserve Bank, unless indeed the Reserve Bank itself decided at some stage to effect a parallel expansion throughout the country by establishing its own branches at district, sub-divisional and taluka places. Such a proposition would be so fantastic, on account of the magnitude of the wholly avoidable expenditure involved, whether in terms of money or of administrative effort, that it may be taken for granted that the machinery of the Imperial Bank must remain an essential complement to that of the Reserve Bank.

State association and State concessions

4. This aspect of the Imperial Bank, viz., the advantages which it could offer to the rural areas by the extension of its branches, was one which did not by any means arise for the first time when the Reserve Bank was established; it was a consideration to which attention had been paid at the very inception of the Imperial Bank itself. Thus, when the three Presidency Banks were amalgamated by statute in 1921, one of the cardinal points of justification stressed by the then Finance Member was the almost unlimited importance and potentialities of the new institution from the point of view of the banking development of the country as a whole. It is worth while recalling the words then used by Sir Malcolm Hailey:

> "The scheme does not merely represent an ordinary banking amalgamation. It has an important aspect in that connexion; but if it stopped there, it would be little more than what in England would be called a 'private' Bill. But it seeks to go further. It will increase the resources of the three Banks by handing over the whole of our balances to them; and seeks in return to make use of the amalgamated institution as a means of furthering the banking development of which this country stands so much in need."

Later, in the same speech, he said:

> "Our hope, therefore, is that the new Bank will grow up to be a really national institution."

It is interesting to note from what has been quoted that, even at this early stage, the Government of India (then, of course, responsible to the British Parliament) had in view the creation of a truly national bank of India. The merger was also of great importance to the Banks concerned, as is clear from the following extract from a circular letter addressed by the directors of the Bank of Bombay to its shareholders on 1 December 1919:

> "It has been borne upon your directorate that there is every probability that powerful banking interests in England represented by the large London joint-stock banks, may at an early date obtain control of certain Indian banking interests, more

particularly those of certain Indian exchange banks and to combat this and to retain their prominent position it becomes absolutely necessary that the three Presidency Banks should consolidate by amalgamation. . . . Your Directors are, therefore, of opinion that failure to take advantage of the present opportunity to meet the undoubted public desire by amalgamating the three Presidency Banks in an Imperial Bank of India might result in Government being forced to establish a State bank on purely official lines and to withdraw their connexion with the three Presidency Banks."

We have given these quotations at length because they emphasize the point made by the Rural Banking Enquiry Committee that the Imperial Bank of India is in effect a State-sponsored bank and that it is, therefore, unnecessary and unwise to sponsor another bank for the discharge of governmental functions as a separate agent of the Reserve Bank of India.

For the programme enjoined on it of opening a number of new branches, when it was first established by amalgamation, the Imperial Bank was given certain concessions. There were, of course, several advantages which accrued to the Imperial Bank by reason of its being made the sole banker of Government in the three Presidencies. This was the position when the programme of opening about 100 new branches was enjoined on it by Government. At a later stage, on the ground that some of the branches so opened at the instance of Government were uneconomic, certain financial concessions were given to the bank. These took the form of graded subsidies to be paid over a period of fifteen years commencing from 1935. The subsidies were to be paid by the Reserve Bank on condition that the Imperial Bank maintained branches not less in number than those which existed at the time this financial arrangement came into force. For the first five years the payment was to be Rs 9 lakhs per annum, for the next five years Rs 6 lakhs per annum and for the last quinquennium Rs 4 lakhs per annum. This of course was quite distinct from the turnover commission which was payable to the Imperial Bank for conducting, as the agent of the Reserve Bank, the cash work of the Central Government and the State Governments at the different banking treasuries in the country. The rate of turnover commission is revised from time to time. We refer elsewhere to the special commission, at a higher rate, which is payable to the bank in connexion with certain more recent arrangements, viz., the opening of a further series of new branches in pursuance of one of the recommendations of the Rural Banking Enquiry Committee.

Attempts at dissociation from State

5. It may be recalled at this stage that, before the establishment of the Reserve Bank, the Imperial Bank had in effect been discharging certain central banking functions as well.

Briefly:

(1) the bank undertook all the general banking business of the Government and accepted payments and made disbursements on account of the Government;

(2) it held all treasury balances at headquarters and at its branches;

(3) it undertook the functions arising from the issue of new loans by Government and managed the Public Debt in return for a specified remuneration; and

(4) it gave the public facilities for the transfer of money between its branches at rates approved by the Controller of Currency.

The picture changed when the Reserve Bank was established in 1935. The principal changes were these:

(1) Under the Act of 1920, the Government had exercised the right to appoint the Managing Governors (not exceeding two in number). This power was allowed to lapse.

(2) The power which the Government had under section 10(2) of the Imperial Bank of India Act, 1920, to issue instructions to the bank in respect of matters which affected Government's financial policy was also allowed to lapse.

(3) The bank ceased to be the banker to the Government, but, as indicated above, it continued to transact Government business as sole agent of the Reserve Bank at its branches in Part A and Part C States (except at centres where the Reserve Bank had its own offices) by virtue of an agreement executed by it with the Reserve Bank.

(4) The bank was permitted to deal in foreign exchange and to open branches at such places in India or elsewhere as it considered advantageous.

(5) The management of the Public Debt was transferred to the Reserve Bank.

It was from this point onwards that the past association of the Imperial Bank with the Central Government and its policies may be said to have given place to a process of dissociation. We may ask ourselves whether the Imperial Bank can legitimately argue, if it is so minded, that it is a commercial bank, pure and simple, and that the entrustment to it of the cash work of Government (at places where it happens to have branches of its own volition) is a matter of specific agreement between itself and the Reserve Bank; in other words, that virtually and inherently, and not merely in legal form, the arrangement is no more than the terminable contract it purports to be. To take the argument a little further, would it be open to the Imperial Bank to contend, in connexion (for example) with the implementation of the Rural Banking Enquiry Committee's recommendations (among which were suggestions for assumption of larger control over the bank by Government) that the monopoly of conducting the cash work of Government is no longer a paying proposition and that it would be quite prepared to give up the ' agency ' of the Reserve Bank, if that was the reason why control was being suggested? We do not imply that this necessarily represents the Imperial Bank's attitude ; but we do say that, if that were the position taken by the Imperial Bank, it does not seem one in which Government can acquiesce.

While we are not concerned in this Report with some of the considerations which came within the scope of the enquiry conducted by the Rural Banking Enquiry Committee, it is at the same time necessary for our purpose to emphasize some of the points brought out in the Report of that Committee. The reasons why the Imperial Bank cannot be allowed to regard itself as a commercial bank which for purely adventitious reasons has entered into an agreement with the Reserve Bank (or with Government in the past) may be regarded as falling under two categories: (1) those connected with public need and interest and, therefore, with the policies of Government and the Reserve Bank based thereon, and (2) those connected with the advantages gained and consolidated and others still enjoyed by the Imperial Bank.

6. Confining attention, so far as the first consideration is concerned, to the particular item we have been discussing above, it is clear that so important a matter as the provision of remittance facilities in different and widely separated places throughout the country cannot be left to an *ad hoc* agency which may change from time to time. If there were no Imperial Bank, it would have been necessary to create one. As regards the second set of considerations, we have already given some indication of the background of Government sponsorship and Government connexion against which the bank came into being and has since grown up to its present stature. Besides, we may mention here briefly the following advantages which the Imperial Bank currently enjoys by reason of its connexion with Government and the Reserve Bank:

Special advantages derived by the Imperial Bank

(*a*) The bank continues to manage currency chests and handle Government receipts and payments at places where the Reserve Bank has no offices. For this work it is entitled to receive from the Reserve Bank a turnover commission. The former is an important privilege, which enables the bank to operate with very fine balances. The speed with which the bank is able to arrange for funds is a great advantage.

(*b*) Quasi-public funds such as the accounts of minors, liquidators, funds of local authorities, court deposits, etc., have to be kept with the Imperial Bank under rules framed by the various Governments or under the administrative orders of the Governments or on the advice of the Reserve Bank.

(*c*) On account of its association with the Government, many Government contractors find it convenient to open accounts with the Imperial Bank, because Government cheques are credited the same day. Quite a large proportion of the sums disbursed on account of Government does not actually leave the vaults of the bank but remains with it until withdrawn in the ordinary course.

(*d*) In view of its special position, guarantee bonds or deposit receipts of the Imperial Bank of India are accepted by Government offices from contractors for the proper discharge of contracts. The guarantee bonds or fixed deposit receipts of other Indian scheduled banks including the exchange banks are also accepted, provided the bonds are countersigned by the Imperial Bank of India. Otherwise the banks are required to lodge with the Reserve Bank of India requisite securities, namely, cash deposits or Government securities in respect of the guarantees to be executed or fixed deposit receipts to be tendered by them.

(*e*) Under the Remittance Facilities Scheme introduced in 1940, the Imperial Bank is entitled to remuneration on issues or encashments of all remittances put through their offices excepting those granted at par to scheduled banks and state co-operative banks. In the case of remittances issued at a premium on the treasuries or sub-treasuries or its own branches on behalf of Government, scheduled and non-scheduled banks, indigenous bankers, co-operative banks and societies and the public, the commission realized is retained by the Imperial Bank. In the case of intra-State remittances issued by the Imperial Bank offices at par and remittances drawn by offices of the Reserve Bank and treasury agencies encashed

at the offices of the Imperial Bank, the Reserve Bank pays to the Imperial Bank, each half-year, commission at the rate of 1/64 per cent on the total of such issues and encashments.

(*f*) In 1935, the management of the Public Debt was transferred to the Reserve Bank, but the Imperial Bank continues to assist in the flotation of new loans. Although statutorily the bank has never been a bankers' bank, in actual practice it performed that role till 1935 and managed the clearing houses at various centres. Even after the establishment of the Reserve Bank, the Imperial Bank continues to manage most clearing houses and acts as a bankers' bank, particularly at places where branches of the Reserve Bank have not been established. In view of this fact, under section 24 of the Banking Companies Act (which prescribes the minimum assets to be maintained by banking companies), balances of banking companies with the Imperial Bank are permitted to be treated as cash.

State's interest in branch extension of Imperial Bank

7. In this context, then, it seemed necessary to the Rural Banking Enquiry Committee to suggest the assumption of a larger degree of control over the Imperial Bank. It is not necessary, for the present purpose, to go into the details of the control actually proposed. Obviously, these particular proposals are still under consideration, since no decision on them has yet been announced. It is, however, extremely pertinent to notice that, irrespective of this question of control, the Reserve Bank as well as the Imperial Bank have, during the past few years, i.e., after the Rural Banking Enquiry Committee had made its recommendations, been actively pursuing the question of branch extension of the Imperial Bank. Appreciable progress has been made and substantial further progress is contemplated. The main particulars regarding the programme of extension, achieved or planned, may be briefly set out. The initial two year expansion programme of the Imperial Bank which ended on 30 June 1953 is now being followed by a three year programme beginning from 1 July 1953, during which period the Imperial Bank has, in consultation with the Reserve Bank, agreed to open 80 branches (including conversion of 5 treasury pay offices into branches) in Part A and Part C States. The 80 centres consist of 56 district treasury centres and 24 sub-treasury centres as indicated below:

	District treasury centres	Sub-treasury centres	Total
Part A States .. .. (preference being given to States where banking facilities are not adequate, e.g., Assam, Bihar, Orissa, etc.)	47	21	68
Part C States	9	3	12
Total ..	56	24	80

Taking into account the 34 branches already opened (including 8 treasury pay offices converted into branches) during the initial two year period ended on 30 June 1953, the total number of new branches which the Imperial Bank will have opened,

according to the programme, will be 114 at the end of 5 years commencing from 1 July 1951. This number will include 80 district treasury centres and 34 sub-treasury centres. In this connexion, there is one important point to be kept in mind by those who criticize the Imperial Bank in various contexts. In spite of the commission earned by the bank on the turnover of the cash work of Government (and this includes, as recommended by the Rural Banking Enquiry Committee, an increased commission on the turnover at the new branches), there can be no doubt that this programme imposes on the Imperial Bank a certain amount of financial burden which it bears in the national interest. Normally, of course, and notwithstanding the past and present advantages we have mentioned, the bank cannot be expected to acquiesce in any substantial net burden over any considerable period. From this arises a feature of the programme which may be described as a 'compromise' between two different considerations: (1) the objective of State policy which, in this context, is that of extension, irrespective of commercial banking profits, for the benefit of the rural areas concerned, and (2) the 'profit principle', viz., the principle of extension in conformity with commercial banking profits, which is the main concern of the bank. The compromise is clear from the various categories of places (it is needless to give details here) which figure in the programme and from which the Imperial Bank can, within certain limits, choose the centres at which it is going to open new branches. It is also, and even in greater degree, clear from the fact that the total programme for five years is, in extent, not even half that recommended by the Rural Banking Enquiry Committee. That Committee had indicated a target of 274 new centres for the corresponding period. The programme covers only 114.

However that be, in the context of the grave drawbacks to the rural economy arising from the absence of monetary facilities in large areas of the country, especially the subsistence and low food crop areas, the importance of a programme of branch extension by the Imperial Bank can hardly be exaggerated. We would here take note of the programme we have described, with all its limitations, as one of the most significant features of the recent record of the Imperial Bank in its relation to rural banking and rural finance.

Other State-associated banks

8. It is now necessary to take up the story in relation to the other State-associated banks. The particular State-associated banks which we have mentioned above are broadly the same as those dealt with in the *Report of the Rural Banking Enquiry Committee*. One important exception is that we have included the Bank of Baroda, whereas that Committee's recommendations exclude it. The exclusion in that case was due to the somewhat accidental fact that the State of Baroda merged in a Part A State (Bombay), so that the Bank of Baroda did not continue—as did, for example, the Banks of Hyderabad and Mysore—as the State-associated banking institution of a 'continuing' State, i.e., one which had retained its identity. In regard to all these banks, the aspect we have now to consider is their connexion with the conduct of the cash work of the treasuries of the State Governments concerned and, following from this, the significance of these banks for a scheme in which the extension of banking treasuries (as distinguished from non-banking treasuries) becomes a factor more important than any other for the expansion of rural banking.

We may start by noticing that the extent of branch expansion of the State-associated banks in their respective areas, and proportionately to those areas, is of a much larger

order than of the Imperial Bank in Part A and Part C States. This aspect is dealt with in greater detail later, but meanwhile, the following figures are of interest and may be perused:

Number of branches as on 31-12-1953

State Bank of Saurashtra ..	12
Bank of Patiala ..	43[1]
Bank of Bikaner ..	52
Bank of Jaipur ..	39
Bank of Rajasthan ..	25
Bank of Indore ..	14
Bank of Baroda ..	51
Bank of Mysore ..	32
Hyderabad State Bank ..	29[2]
Travancore Bank ..	16
Total ..	313
Imperial Bank of India ..	205

[1] As on 30 September 1953.
[2] As on 31 March 1953.

Background : Rural Banking Enquiry Committee

9. In order to understand the full significance of certain features of these State-associated banks, a somewhat long digression is necessary. A number of considerations and recommendations set out by the Rural Banking Enquiry Committee are very relevant here and need to be recalled against the Committee's terms of reference as a whole. The terms were as follows:

(1) To consider the measures that can be immediately adopted for the extension of banking facilities in rural areas.

(2) To review in this connexion the present arrangements for the management of the cash work at Government treasuries and sub-treasuries including those where the work is at present managed by the Imperial Bank of India.

(3) To consider to what extent the extension of banking facilities will be facilitated by entrusting the cash work at Government treasuries and sub-treasuries at places where the work is not at present being managed by the Imperial Bank of India to commercial banks and co-operative banks, and in this connexion to consider :

(*a*) the future management of such work in the Provinces of India as well as in the States and Unions whose financial integration with the Indian Union will take effect from 1 April 1950; and

(*b*) to what extent the management of the cash work in Government treasuries and sub-treasuries could be entrusted to either a new State-sponsored bank or to one or more of the existing commercial banks or co-operative banks; and the conditions to be fulfilled by, and the assistance to be given to, such banks.

(4) To make recommendation in regard to the banks which may now be handling the treasury work in the States and the Unions.

(5) To make any other recommendations.

It will be noticed that, in so far as they are specifically related to Part B States and the banking and treasury arrangements therein, the relevant terms of reference are 3(*a*) and 4. In pursuance of the wider matters referred to it, the Committee came to the conclusion that so far as Part A and Part C States were concerned, the Imperial Bank should continue to conduct the cash work of the treasuries of Government. Before they came to this conclusion, the Committee had examined the various alternatives that had been put forward, such as the division of the cash work in Government treasuries in Part A and Part C States between the Imperial Bank on the one hand and various other commercial banks on the other. They were of the definite view that the proper course to follow would be to assume a somewhat greater degree of control than at present over the Imperial Bank and to continue to entrust the monopoly of such work to that bank, instead of having a multiplicity of agents. The underlying considerations were as follows:

(i) The agency which handles the receipts and payments on Government account has also the custody of the currency chests and small coin depots and is responsible for providing facilities for exchange of notes and coin and remittance of funds to the Government departments, banks and the public. This combination of functions makes the selection of the Reserve Bank's agents a matter of particular difficulty. It is not possible to separate the various functions so long as cash continues to play an important role in the day-to-day transactions in the country.

(ii) The balances in the currency chests are so high that adequate cover in the form of Government securities cannot be provided by the majority of banks. The security has, therefore, to be found in the stability and solidity of the institution, and only first-rate banks of unimpeachable standing can be entrusted with the work.

(iii) Government do not at present maintain any balances with the Imperial Bank, which initially provides funds to meet Government disbursements whenever they exceed receipts. Only banks having large cash and liquid resources of their own can assume a similar responsibility.

(iv) Under the existing system of accounting and adjustment of Government transactions, only banks functioning on branch banking lines and able to provide an effective liaison at least at one of the offices of the Reserve Bank will find it possible efficiently to discharge the various duties incidental to the handling of cash work.

(v) A multiplicity of agents will result in misdirection of advices and wrong entries, and render the reconciliation of discrepancies in currency, remittances and Government transactions extremely difficult.

(vi) As it is not possible to lay down objective criteria for the selection of agents of the Reserve Bank, a change in the present system will create a delicate and complicated problem of having to decide the competitive claims of different institutions.

(vii) It is doubtful if any saving would result to the Reserve Bank by distributing the cash work among several agents.

(viii) If a revision in the boundaries of Provinces takes place at any stage, the multi-agency system will require a re-definition of the regions allotted to different institutions, and this will introduce another complication.

The Committee also considered the alternative of a State-sponsored bank and for the following reasons rejected the possibility of this being a promising line of solution:

(1) The formation of a new State-sponsored bank by the consolidation of several small banks in the States, although attractive at first sight, will present many difficulties. The principal difficulty will be in defining the relative spheres of the activities of the Imperial Bank, the new State-sponsored bank and other banks.

(2) The Imperial Bank is, to all intents and purposes, functioning as a State-sponsored bank, and the people can legitimately look forward to its being developed as a national institution. The multiplication of institutions performing similar functions and competing with one another with State aid will not be desirable.

Having thus come to the conclusion that the Imperial Bank should continue to be the agent of the Reserve Bank in Part A and Part C States, the Committee went on to recommend that that bank should, in consultation with and under the general guidance of the Reserve Bank, embark upon a policy of much larger expansion into the rural areas. The result of this particular recommendation has already been dealt with in a preceding paragraph.

Rural Banking Enquiry Committee and State-associated banks

10. It was against the background of these considerations in respect of the arrangements pertaining to Part A and Part C States, that the Rural Banking Enquiry Committee viewed the problem in so far as it concerned Part B States. The Committee felt, after such examination as it was able to make of the material available in respect of the State-associated banks operating in Part B States, that the question of the eventual entrustment of cash work to banks in those States might be left open for the time being and be reviewed after a period of five years, the only exception to this being Hyderabad, where the Committee felt that the Hyderabad State Bank might continue to be entrusted with the cash work of Government treasuries. The following special considerations led it to make an exception in the case of Hyderabad:

(1) The bank was constituted by a special Act of the Hyderabad State Government which provided for a far-reaching degree of control over the affairs of the bank by the Government of Hyderabad. The Government have a controlling interest in the share capital as they own 51 per cent of the shares of the bank, and the previous sanction of the Government has to be obtained for an increase or reduction of the share capital. The Government have the power to nominate the president of the board of directors and three other directors, one of whom is an official of the Finance Department of the Hyderabad Government. The managing director of the bank is appointed by the Government who are also authorized to supersede the board if they are of the opinion that the bank has failed to carry out any of the obligations imposed on it by the Hyderabad State Bank Act. All

changes in the regulations of the bank must be approved by Government, and Government have the power to appoint such auditors as they think fit to examine and report upon the accounts of the bank. The commercial business which the bank is authorized to undertake is subject to certain limitations which are broadly comparable to those placed on the Imperial Bank by its Act.

(2) It acted as the agent of the Hyderabad Government for the management of Hyderabad currency (for this purpose it maintained a separate department), was responsible for maintaining the external value of the Hyderabad rupee, and also acted as banker to the State. It managed the Public Debt of the State and carried on the Government treasury work at several of its branches.

As regards the other State banks, the Committee was of the view that the *status quo* should be continued and the position reviewed at the end of five years. At the same time, the Committee made a very definite recommendation that the Governments of all the Part B States—including those which would have no agent-bank operating on behalf of the Reserve Bank—should appoint the Reserve Bank as their sole banker.

Fuller consideration by Reserve Bank

11. We now come to the phase of consideration and implementation of these recommendations. The first point to notice is that the Reserve Bank did not confine itself to the literal carrying out of the proposals as they stood, but made much more detailed enquiries than it had been possible for the Rural Banking Enquiry Committee to conduct, and formulated lines of action which, to a significant extent, were in advance of the recommendations made by the Committee. This happened in the following manner. It was very soon realized by the Reserve Bank that to maintain the recommended *status quo* in practically all Part B States (the only exception being Hyderabad) was in practice going to be extremely difficult, if at the same time the very important and clearly necessary recommendation regarding the appointment of the Reserve Bank as the sole banker of all these States was to be actively pursued and implemented. Now, as we have already pointed out, there are large areas of the country where the Reserve Bank has little or no machinery of its own. True, one of the recommendations of the Committee was that the Reserve Bank should gradually expand from Part A to Part B States by establishing branches at State headquarters. This process would be necessarily slow, for it has to be remembered that there are many headquarters in the Part A States themselves where the Reserve Bank has no branches; moreover, it would not solve the problem of creating a machinery within the interior of the States, i.e., at district headquarters and lower down. In Part A and Part C States that machinery is provided by the Imperial Bank. In Part B States, the potential machinery, in most cases, happens to consist of the very banking institutions we have referred to as the 'State-associated' banks. The Reserve Bank found that in practically all these States, the affording of many of the 'banking' facilities enjoyed by the State Governments and, in varying degrees, the conduct of the cash work of the treasuries of the State Governments, were already among the existing functions of the 'State' banks concerned, and that in a number of cases this intimate relationship between the Government and the 'State' bank (confined sometimes to the smaller territorial units which had existed before integration) was something which had been in existence for a very long time. If, then, the Reserve Bank was appointed the sole banker of the Governments of Part B States while not recognizing the 'State' bank as its agent, the position would be that

the Reserve Bank would have to ask the State Governments concerned to establish its currency chests, not in the branches of the banks which had been managing Government's cash work or had been affording banking facilities to the particular Government, but in Government treasuries themselves. In other words, if the appointment of the Reserve Bank as banker was to be effective, there would, in some cases, have to be a transfer of cash work from the banks concerned to Government itself, a process which, obviously, would be the reverse of that envisaged, on very valid considerations, for Part A States. The question, therefore, was not one of the maintenance of the *status quo*; the actual problem, in some cases, was that of a choice between two alternatives: (1) the transfer of cash work from banks to Government or (2) the recognition of those banks, under specific conditions, as the agents of the Reserve Bank. If both these alternatives were to be rejected, then there would be little point in the Reserve Bank negotiating for being appointed as the banker of the State Governments; and, if the Reserve Bank was not so appointed, the result would be that what might broadly be called the 'banking integration' of the country would be postponed for about five years, a contingency which—in so far as the appointment of the Reserve Bank as sole banker was concerned—the Rural Banking Enquiry Committee had clearly not contemplated.

Formula of control

12. Confronted with this problem, the Reserve Bank set about evolving a formula of control over the 'State' banks and of other conditions relevant to such a formula, which might enable the Reserve Bank to appoint the 'State' banks concerned as its agents either simultaneously with, or after a time lag from, the appointment of the Reserve Bank itself as the banker of the State Government. The formula evolved by the Reserve Bank in consultation with the Finance Ministry and the States Ministry of the Government of India was briefly as follows :

(i) In regard to its ordinary business, the particular State-associated bank should as a rule (but with certain exceptions) function in the same manner as a commercial bank and be subject to all the restrictions imposed by the Banking Companies Act.

(ii) The exception relates to certain types of transactions open to commercial banks, but not open to the Imperial Bank under its special statute. There should be similar restrictions on the nature of the business conducted by the State-associated bank. The restrictions are in each case designed to impart a more than ordinary level of 'soundness' to the business of the bank.

(iii) The appointment or removal of the managing director or the general manager should be subject to the approval of the Central Government.

(iv) The Central Government should be entitled to nominate a representative on the board.

(v) The Reserve Bank should have similar power to nominate one of its officers as its representative on the board.

(vi) Rules and by-laws, and any amendments thereof, should be subject to the approval of the Reserve Bank.

(vii) The nominees of the Central Government and the Reserve Bank should have power to demand postponement of decision on a matter which, in their opinion, vitally affected Government's financial policy or the safety of Government moneys

or the financial soundness of the bank ; and the Central Government should also have power to issue instructions in such matters.

(viii) The State Government should stand guarantee against any losses which may occur in the balances in the currency chests in the custody of the agent-bank.

Subsequent developments

13. This formula has been successfully applied in practice. The position as it now obtains is briefly this. The Hyderabad State Bank and the Bank of Mysore have, in their respective States, been appointed agents of the Reserve Bank with effect from 1 April and 1 November 1953. This was after acceptance by them of the scheme of control formulated by the Reserve Bank. In Travancore-Cochin and Saurashtra, where the Reserve Bank has been made banker to the State Governments, no agent of the Reserve Bank has so far been appointed; in both the cases, however, the State Governments have agreed that the adoption of the scheme of control would be a condition precedent to the appointment of the 'State' banks concerned as agents of the Reserve Bank.

It will be noticed that in Hyderabad and Mysore both the requisites have been fulfilled, viz., the appointment of the Reserve Bank as banker to the State Government and the appointment of the 'State' bank as the agent of the Reserve Bank. In Travancore-Cochin, the first requisite has been fulfilled; it is envisaged that the second will also be fulfilled after the lapse of three years from the execution of the Agreement between the State Government and the Reserve Bank. Two years have already elapsed since then. In Madhya Bharat too, the first requisite has been fulfilled; the second is not susceptible of fulfilment for the reason that the branches of the Bank of Indore cover only a very small part of the area of the State. Saurashtra is another, though more recent, example where the State Government has appointed the Reserve Bank as its banker; but here a legal difficulty stands in the way of the State Bank of Saurashtra being appointed as the agent of the Reserve Bank. The difficulty follows from the fact that the State Bank of Saurashtra is fully State-owned. The legal question whether a bank so owned can be regarded as vesting in the State Government, and not in the Government of India (since 'banking' is a Union subject), is a matter which apparently has till recently been under investigation by the authorities concerned. Coupled with this, there also appears to have arisen the legal conundrum whether a fully State-owned institution can be registered as a joint-stock company under the Indian Companies Act. The latter point arises because the Reserve Bank insists, rightly in our opinion, that the most suitable course in regard to banking institutions of this type is for them to be registered under the Indian Companies Act, so that they automatically fall within the purview of the Banking Companies Act. In Rajasthan, the difficulty has been of a somewhat different type. As many as three banks, viz., the Bank of Bikaner, the Bank of Jaipur and the Bank of Rajasthan, have been conducting the cash work of the State Government in different degrees and in different areas of the State. The Reserve Bank, again rightly in our opinion, has insisted that the amalgamation of these three banks is a condition precedent to the appointment of an agent in the State. It has also postulated that, without the assured prospect of there being such an agent, the Reserve Bank cannot hope, even in future, to function effectively in the area of the State and that the appointment of the Reserve Bank as the banker of the State Government would, therefore, serve no useful purpose. But one of the three banks, it is understood, is unwilling to consider amalgamation with the other two. Finally, PEPSU shares with

Rajasthan the position that neither of the requisites is fulfilled. The Reserve Bank has not been appointed as the banker of the State Government and the Bank of Patiala has not been appointed as the agent of the Reserve Bank. In this case, the difficulty, we understand, has been the attitude of the State Government itself. Briefly, that Government has hitherto taken the stand that it is not of advantage to it to appoint the Reserve Bank as its 'sole' banker and, further, that the question of the appointment of the Bank of Patiala as agent of the Reserve Bank is not necessarily connected with the rest of the arrangement. The Reserve Bank has found itself unable to acquiesce in either position. The negotiations in this respect have, therefore, for the time being come to a standstill.

Present position

14. We may now briefly sum up the position as a whole and proceed to describe in some greater detail the progress which this has meant in the matter of establishment of more currency chests—whether banking or non-banking—and of the consequent opening out of new facilities for remittance to Governments, banks and individuals. The account we have given reveals that a great many steps towards integration, in the sense in which such integration results from the appointment of the Reserve Bank as banker to State Governments and from the appointment of agents within the State by the Reserve Bank, have been taken during the last two or three years by the Reserve Bank. The difficulties which have stood in the way of the completion of this integration are partly constitutional, partly arising from the attitudes of individual banks and partly a consequence of the attitudes of individual State Governments. The Reserve Bank has made as much progress in this direction as happens to be within its own power. In achieving this progress it has not, as we have noticed, confined itself literally to the recommendations of the Rural Banking Enquiry Committee. Rather, in pursuance of what might be called the spirit of those recommendations, it has evolved a type of arrangement which provides adequately for transitional needs, and at the same time ensures the development of an ultimate pattern in Part B States comparable to, and if certain further steps are taken, even part of, the pattern which already exists in Part A and Part C States.

In the establishment in Part B States of currency chests useful for the type of rural banking facilities with which we are concerned, there has also been an appreciable degree of progress, but, in this particular respect, the Reserve Bank has been faced with two serious limitations. One of these limitations is that the relatively small size of the banks concerned, wherever they are appointed as agents, necessarily implies the need for a certain amount of caution by the Reserve Bank in regard to the pace at which new currency chests can be established. Thus, apart from the Hyderabad State Bank, where on account of the special history both of the bank and of the State, currency chests of a kind have already been in operation for a certain number of years and have since been continued, elsewhere the currency chests established have been relatively few in number. In Mysore, for example, which is the only other instance where a bank in a Part B State has hitherto been appointed as agent of the Reserve Bank, the banking treasuries which operate currency chests of the Reserve Bank are so far only seven in number. Where the Reserve Bank has not yet been able to appoint an agent bank to operate for it in the Part B State concerned—which is the position in Saurashtra and Travancore-Cochin—even this limited number of currency chests has to be entrusted to Government treasuries; this is the second serious limitation on the programme set before itself by the Reserve Bank, since Government treasuries in

possession of currency chests—in other words, non-banking treasuries—are clearly far less effective than banking treasuries for the provision of rural banking facilities. Nevertheless, the caution which the Reserve Bank has had necessarily to adopt in recognizing the 'State' banks as its agents (requiring in some cases an intervening period of 'probation') has had to be accompanied by similar caution in other respects (e.g., guarantee by State Governments as to safety of balances in the currency chests in their own possession as well as in that of the agent bank, if any, in the State). All this has meant a much slower pace of expansion of remittance facilities than would have been possible in other circumstances. That, broadly, is the position in Mysore, Travancore-Cochin, Madhya Bharat and more recently Saurashtra. As regards Rajasthan and PEPSU, of course, the same factors which have stood in the way of the appointment of the Reserve Bank as banker and of the appointment of an agent by the Reserve Bank, have equally implied that it has not been possible to establish currency chests in the areas of those States. Progress along this most important avenue of action, so much stressed by the Rural Banking Enquiry Committee as likely to lead to more extensive rural banking facilities through better and cheaper remittance facilities, has, therefore, been taken by the Reserve Bank to a point at which it is itself powerless to eliminate the obstacles or hasten the pace.

Record of Imperial Bank and State-associated banks

15. To sum up the account we have given of the relevant records of the Imperial Bank and the State-associated banks :

(1) Both the Imperial Bank and the State-associated banks have shown themselves important from the point of view of the provision of rural banking facilities through the operation of currency chests established with them as agents by the Reserve Bank. The Imperial Bank's record in this connexion is of course not less old than the establishment of the Reserve Bank and in fact dates back to before that, whereas the record of the State-associated banks is recent, piecemeal, not yet anywhere near complete development, and associated with impediments to progress which, without various measures including the requisite legislation, are beyond the competence of the Reserve Bank to resolve.

(2) The recent programme settled between the Reserve Bank and the Imperial Bank concerning the latter's branch expansion is of very great importance. By itself, however, it represents only a small part of the task which yet remains in this direction.

(3) Relative to the size of their respective States, the branch expansion into rural areas of some of the 'State' banks, e.g., Baroda and Hyderabad, is much larger than that of the Imperial Bank in Part A and Part C States. This is only a demonstration in one sphere of the results which may be expected if the banking institution of a State works in close conformity with the larger policies of the State.

(4) Both the Imperial Bank and the State-associated banks are of appreciable, though varying, significance in the matter of providing financial accommodation on agricultural commodities. Such accommodation is often the result of positive association with the policies of the particular Government, State or Central. Much the larger part of this accommodation is made to the trader and not to the cultivator; but that is a feature which the Imperial Bank and the State-associated banks share with other commercial banks.

VII. OUTLINE OF SOLUTION

CHAPTER 25

SUMMING UP OF THE PRIVATE CREDIT AGENCIES

Private credit agencies

THE records of the different agencies of rural credit have been examined in some detail in the last four sections. As a preliminary to the formulation of an integrated solution, it is proposed in this chapter to consider briefly the significance of the private credit agencies in the light of the requirements of such a solution. The commercial bank, the trader and the indigenous banker are, each of them, much less important in this context than the moneylender. We may consider these first and then pass on to the last mentioned agency.

Commercial banks

2. It has been seen that the advances of commercial banks for the production of agricultural commodities constitute less than 4 per cent of their total advances; further, out of this relatively small quantum, a substantial portion is accounted for by advances to tea, coffee and rubber plantations. The data on the borrowing side show that loans from commercial banks constitute less than 1 per cent of the total borrowings of the cultivator from all sources. Nor are commercial banks of any significance as lenders to co-operative banks or co-operative marketing societies. In 1951-2, less than 7 per cent of the working capital of state co-operative banks consisted of advances obtained from commercial banks, the bulk of this accommodation having been given to one state co-operative bank largely for the purpose of procurement of foodgrains as part of the system of food control. Thus, it is trade in agricultural commodities, and not production itself nor even co-operative marketing, that is helped by the finance from commercial banks; and here again, for various reasons, it is cotton and some of the other cash crops which figure in the trade finance of commercial banks. Interest in rural areas there certainly is on the part of commercial banks, but this is for the purpose of getting deposits from those areas through branches, mobile banks, etc., and not for financing either agriculture or cottage industry. This is entirely understandable because the commercial bank, not only in India but in most other countries, is not designed for agricultural finance, whether medium or long on the one hand or short-term on the other. This is the experience of several countries in which agriculture predominates. After pointing out that " there can be little doubt that in many agricultural countries the unsuitability of existing credit agencies is a major obstacle to the expansion of output on small farms," a paper of the Department of Economic Affairs of the United Nations goes on to say: " The banking system is adjusted to meet the credit needs of large industrial concerns and commercial enterprises, and of agricultural production in so far as it is organized in large estates or plantations. The greater part of agricultural production, however, is in the hands of individuals or families conducting relatively small independent enterprises with very limited capital. 'The huge number of producing units, the limited capital resources of the average producer,

and the personal nature of each enterprise cause many of the difficulties inherent in the provision of agricultural credit.' The long production period in agriculture also tends to eliminate the ordinary commercial banks as direct sources of credit to farmers. 'The financing of land purchase and other forms of long-term mortgage business are highly specialized forms of banking, but even medium-term loans of from 3 to 5 years' duration, which constitute the type of loan usually required by the small farmer for the purchase of cattle or machinery or for the execution of minor improvements, are outside the usual scope of most commercial banks.'"[1] In regard to a future solution, therefore, it is important to bear in mind that the claims put forward by commercial banking interests in the context of agricultural credit tend to be greatly exaggerated.

Commercial banks and agricultural marketing

3. While commercial banks have little or no significance for agricultural production, they may, if suitable conditions are created, acquire considerably greater importance than at present for agricultural marketing. In its Statutory Report of 1937, the Reserve Bank of India said: "We consider that they [commercial banks] are in the best position to finance the movement and marketing of crops by making short-term advances against produce and in order that they may be able to do so, the arrangements for the marketing of crops must be improved by (1) the grading and standardization of staples and of contracts, (2) proper storage facilities, and (3) the creation of properly regulated local as well as forward markets."[2] It would seem that it is in these directions, rather than on the basis of a more direct relationship between commercial banks and rural credit, that future policies would have to be formulated in so far as they are concerned with these institutions. Even so, it will be necessary to ensure that commercial banks are not, by admixture of inconsistent policies, encouraged to extend as deposit-receiving institutions into rural areas at the expense of the development of co-operative banks which are, in their design, intended not only to receive rural deposits but also to make advances for rural production and marketing. In regard to any measures connected with commercial banks, in the context of rural marketing, it will have further to be remembered that the private trade which they finance is, by reason of its being the main opponent, also the prime factor which retards the development of co-operative marketing.

Wholesale and retail traders

4. The significance of wholesale and retail traders may be briefly disposed of. Backed as both these are by the powerful institutions of commercial and indigenous banking, they constitute, as we have said, a formidable rival to co-operative marketing: the retail firms and individuals directly, and the wholesale trade more indirectly and as part of the whole superstructure. The wholesale trade might be invested with some importance in this context if it could be directly linked to a well-organized structure of co-operative marketing. Until, however, that structure is developed at all levels, viz., State, district and primary, such efforts could only be *ad hoc* and confined to individual instances in which the co-operative marketing society has already acquired standards of various kinds which come up to those usually required by wholesale agricultural trade, e.g., in promptness and efficiency of business, or in the manner in which commodities are graded and stored. In so far as the retail trader

[1] *Selected Readings in Agricultural Credit*, 1952, p. 69.

[2] [illegible] 8.

or the agent of the wholesale trade is in direct contact with the cultivator, we have seen that the finance provided by him in the shape of loans constitutes, on an average, about a twentieth of the total borrowings of cultivators. The actual proportion, of course, varies from region to region. Further, it is no indication of the total 'financing' of agriculture by private trade. In effect, much of this financing takes place as advance payment of part of the purchase price, the transaction of purchase being formally or informally effected long before the cultivator has obtained his harvest. Such finance has in appearance the merit of being 'production' finance; in practice it has the notorious drawback of being one of the means whereby the weaker section of the agricultural economy, which is also by far its major section, is rendered subservient to the superior financing resources and bargaining position of powerful private interests. It may, therefore, be tentatively postulated at this stage that the existing function of the trader in agricultural commodities, in so far as it is significant for future agricultural credit and marketing, is something to be transferred in large part to a co-operative or other suitable institutional agency; it is not a feature which would justify the inclusion of the trader as part of an integrated solution.

Indigenous bankers

5. The indigenous banker, like the commercial bank which in many parts of the country is replacing him, is a financier of trade; he is also often a trader himself; further, he finances moneylenders. That this mixed agency of trade and credit still serves a residual number of more or less useful purposes in certain parts of the country may well be true; but what is not true is that the indigenous banker thereby becomes entitled to be considered seriously as an appropriate instrument of rural credit. A claim of this sort has been made from time to time by associations of indigenous bankers with a view to obtaining facilities of re-discount and re-finance from the Reserve Bank of India. The resultant negotiations between the indigenous banker and the Reserve Bank have been going on intermittently for the last fifteen years. In brief, the Bank has put to him two propositions:

(1) that he should convert himself into a banking company under the Indian Companies Act and thereby make himself automatically eligible for such facilities as are available to non-scheduled banks and, alternatively,

(2) that he should accept three main conditions stipulated by the Bank, viz., divest himself of trading, maintain prescribed accounts, and submit himself to inspection.

It may be said of these two pieces of advice that the first was not needed and the second was not heeded. As for the former it is obvious that what the indigenous banker has been seeking from the Reserve Bank is not an option which is already available to him. What he wants from the Bank is the sum total of the facilities available from that institution to scheduled banks; but, whether he gets that or not, he is by and large determined to preserve his specific identity. Since that identity consists in his doing a variety of business besides banking, he has hitherto adhered to the decision of not conforming to the various restrictions sought to be imposed on him as a condition precedent to his being linked with the Reserve Bank. As these negotiations have not been entirely dictated by the context of rural credit, it is not for us to say whether, as a general proposition, they should or should not be pursued, and, if pursued, on what modified lines

it may be fruitful to resume them. So far as agricultural credit is concerned, however, we are definitely of the view that there would be more danger than benefit to the cultivator if the indigenous banker is constituted, as suggested by him, a part of a chain of credit extending from the Reserve Bank at one end to the cultivator at the other, with the indigenous banker and the town and village moneylenders as the intermediate links.

Moneylenders

6. As in the case of the indigenous banker, so in that of the moneylender, the suggestion is sometimes put forward that means should be found of associating him effectively with any institutional arrangements that may be devised for the supply of rural credit. The details of one such proposal have been given in Chapter 10 and, in the light of the many lines of integration to be formulated in the next three chapters, the relative merits of this and other alternatives will be discussed in Chapter 29. It is, meanwhile, necessary to examine, in some of its broader aspects, the moneylender's place in rural credit and its significance *vis-a-vis* an institutional solution of the problem. We have seen that more than 90 per cent of the total borrowings of cultivators is met from non-institutional private agencies of which the most important are moneylenders who account for nearly 70 per cent; this consists of about 45 per cent from the professional moneylender and about 25 per cent from the agriculturist moneylender. If future place in a solution were to be proportionate to the size of present participation, then the moneylender would indeed be assured of a very important role in the arrangements for rural credit. The fact, however, remains that he satisfies few of the criteria of a good system of credit. In the first place, his loans are not related to productive purpose; and neither in duration nor in rate of interest have they any connexion with the particular operation, agricultural or other, for which the amounts in question are borrowed. Actually, the interest charged is as high as practicable in the circumstances, that is to say, after account is taken of competitive sources of credit which may be available and of the borrower's ultimate capacity to repay. The moneylender's influence and connexions, and sometimes the fact that he is also a trader, usually enable him, if he is so minded, to dispense with the formalities of security. While he thus adapts the technique of his credit to the needs of the borrowers, all needs are to him alike, so that the moneylender's loans are often in the nature of facile credit for wasteful items of expenditure. Beyond the merits of flexibility and ready availability, therefore, the moneylender's credit has nothing to commend it and a great deal to condemn it.

Ineffectiveness of moneylending legislation

7. Meanwhile, as we have seen in a previous chapter, the control sought to be exercised on him has had little effect on him or his operations beyond putting him to the necessity of devising a variety of legal camouflage for a whole range of illegality. It will be useful to analyse a little further the reasons for the powerlessness of the law against the moneylender. The first point to notice is that, while monetary control, banking regulation, etc., have been vested in central authority—Parliament, the Government of India and the Reserve Bank— the total sector of credit in this country has existed as two distinct segments from the point of view of legislative and administrative control and responsibility: commercial banking credit under central authority, and co-operative and private credit, the latter including moneylending, under the State Governments. We are not suggesting that this division of responsibility did not originate in very valid considerations or that there is current justification for altering it. *A priori*, monetary control and banking

regulation have necessarily to be exercised at the all-India level; and there are forceful practical grounds, political as well as administrative, for vesting with State Governments the responsibility pertaining to credit with which the cultivator and his land are primarily concerned. But reasons for a bifurcation of responsibility and initiative of this kind, however compelling at the legislative, political and administrative levels, do not alter the fact that all credit in the country, whether rural or urban, agricultural or commercial, institutional or private, is one organic entity of which the different components are closely interrelated; nor do they dispose of the self-evident proposition that monetary and banking policies have a most vital bearing on the control of credit of all types and at all levels. This being so, the control of private rural credit attempted by State Governments over the last several decades may be said in certain essential respects to be comparable to what would have happened to food prices, during war-time and post-war inflation, if policy and supporting action had not been conceived and implemented on an all-India scale and each State Government had been left to take its own measures without help or intervention from the Centre. State Governments, i.e., the Governments of the older Provinces, under the pressure of agrarian discontent generated by the extortionate practices of the moneylender, including the high rates of interest which he charged in exploitation of the scarcity value of the credit he dispensed, undertook, as one of their very first measures in this context, legislation which imposed a ceiling on the rate of interest which the moneylender could charge. In illustration of this may be cited the fact that one of the many provisions of the Deccan Agriculturists' Relief Act, which is among the earliest pieces of legislation in this connexion, was concerned with the regulation of the rate of interest on the loans of moneylenders to agriculturist borrowers. In actual practice, this had as little effect as the attempt in the early days of inflation to control food prices by the simple device of imposing legislative ceilings on them. It was soon realized, in the sphere of agricultural credit, that legislation would have to be supplemented by organized arrangements for the supply of credit at reasonable interest to the cultivator; the underlying hope was that such an arrangement would, by effective competition, compel the moneylender to bring down his interest rates; and the form which the organization took in the States in which it did develop to some extent was the co-operative credit society. A corresponding stage in the evolution of food control may be said to be the establishment of fair-price shops. The total distributable resources being as slender in co-operative societies as in fair-price shops, the interest charged on the private supply of credit and the prices charged on the private supply of food continued to be as high as ever. In food, the next inevitable step was for Government itself to assume command over a large part of the supply as also of the distribution. This could not be done except by co-ordination of policy and operations on an all-India basis; in other words, for the success of the scheme, the Centre had to intervene and undertake a very large measure of responsibility. In agricultural credit, no corresponding step has been taken and the position remains largely what it was. The only comparable measures, which however are relatively minor and almost insignificant in relation to the dimensions of the total problem, are those connected with the expansion of the facilities for cash remittances through the establishment of a large number of banking currency chests initiated by the Reserve Bank in conjunction with the programme for the extension of the branches of the Imperial Bank. But these measures have not, either by themselves or in conjunction with those adopted by State Governments, helped to provide adequate credit as an alternative to that supplied by the moneylender. As a credit agency, therefore, the moneylender is still as much in demand

as before. This undiminished demand enables him to evade successfully the controls imposed on him by different State Governments and to continue to supply agricultural credit as extensively and extortionately as did the private trader in foodgrains at a time when procurement and rationing had not yet been organized and fair-price shops were the only rivals with which he was confronted. As already pointed out, the political pressure by and on behalf of the agriculturist borrower is on State Governments; the latter, in response to the pressure, have tended to adopt the first obvious 'remedy' which is open to them, viz., legislation in varying degrees supported by complementary administrative steps; but the really effective measures pertain to the monetary and banking spheres which are the responsibility of the Parliament, of the Central Government and of the Reserve Bank; and, by and large, no effective measures, corresponding to those in regard to food, in discharge of these responsibilities have yet been taken at the all-India level. State Governments are sometimes criticized, not entirely without justification, for initiating such legislation without first ensuring that effective alternatives are available to the cultivator; many of the critics, however, forget the most salient fact of the situation which is that effective measures are not possible without much larger participation, legislative, financial and administrative, by the Centre. If the result may be expressed in terms of another analogy, the moneylender remains in many places in that position of vantage which would be enjoyed by the private proprietor of a village irrigation tank of which the water is required by all the cultivators of the village; such a position is unimaginable today in regard to irrigation, for the State as a whole has recognized its imperative responsibility in this matter; and yet a situation not very different continues to exist in the sphere of agricultural credit.

Assessment of moneylender's real significance

8. It is in the light of these broad, but vital, considerations that in our view the significance of the moneylender should be assessed for the purposes of future policy. The size of the moneylender's participation in agricultural finance is undoubted. It is preponderant. Nevertheless, it is a mistake to imagine that that size is a measure of the place he must occupy in a realistic solution or, conversely, of the peril at which he may be ignored in any such solution. Rather, it is a measure of the magnitude of the root problem; a problem which originated in the colonial-cum-commercial-cum-urban domination over India's rural economy and which persists unsolved partly because of the insidious survival of the commercial and urban part of that domination and partly on account of the absence of planned co-ordination, monetary, financial and administrative, between rural needs on the one hand and the country's more effective policies and more powerful institutions on the other. Rightly viewed, therefore, the present size of the moneylender's operations is an index to the size of the effort that will be needed on the part of the State to rectify a chronic maladjustment which is to the disadvantage of rural India. Conceding, it might be argued, that the moneylender ranges himself on the side of the problem, does it follow that he must be precluded from the solution? The view held must necessarily depend on the objectives postulated for the solution; our answer to this particular question will be found in Chapter 41.

Remaining agencies

9. There remain to be considered in the context of the formulation of solution, the Reserve Bank, the State-associated banks, the co-operative agency and finally the Governments themselves, Central and State. The underlying assumption of the discussion will be that which we have postulated

in Chapter 13, viz., that " the reorganization of agricultural credit in India must be based on some form of co-operative association of cultivators within the village itself." Notwithstanding the unsatisfactory record of co-operative credit, which we have already discussed, we believe not only that the co-operative system can, if the right conditions are created, work successfully in this country but also that, for rural India as a whole and in particular for the development of the prosperity of her agricultural population, there is no real alternative to the adoption of the co-operative basis for the organization of credit and economic activity. The bringing about of the right conditions however, is no easy task; it will require both time and determination; above all it will require on the part of Governments, and of some of the institutions associated with them, a scale of effort commensurate with the gravity of the problem itself. Nevertheless, as conceived by us, both task and objective may be defined as the creation of conditions in which Co-operation can be so organized in this country as to begin to operate, adequately, effectively and at the earliest possible moment, for the economic benefit of the relatively disadvantaged classes of cultivators, handicraftsmen and labourers in the rural area. The manner in which effort and organization can be directed to this end is considered in the ensuing chapters.

CHAPTER 26

FORMULATION OF SOLUTION (I): DEVELOPMENT OF CO-OPERATIVE CREDIT

RURAL credit, as we have seen, may be considered from the point of view of the cultivator who needs it: it may also be studied in relation to the agency which supplies it. Both these aspects, sometimes together and sometimes separately, have figured in the preceding chapters.

Recapitulation

So far as the first aspect is concerned, it has been clear that credit can hardly be separated from several factors and considerations which together form one background. As seen in Section I of this volume, they comprised a whole set of conditions in which production and activities connected with production were carried on. There was the important question of land tenures and tenancies and a series of legislative measures which affected the legal relation of the cultivator to his land. Then there were, in relation to agricultural production, a number of factors such as physical conditions, facilities and appurtenances, e.g., the provision of irrigation, the supply of seed, manure, etc., the introduction of better technological methods and the availability of the implements needed to apply those methods; some of these (e.g., irrigation) were in the main supplied by the Government and the others had to be obtained by the cultivator, and he, therefore, needed credit. Then there were the stages which followed production, such as processing, storage, transport and marketing, in each of which the agriculturist was vitally concerned. Thus, there was a whole range of economic activity to be taken into account, along with credit, because of an association so intimate as to present, in effect, one organic problem for which lines of solution had to be investigated. This may be said to be one of the two main lines of enquiry we have so far pursued.

The other broad line of enquiry related to the agencies and institutions which, in part and in varying degrees, met the needs of the cultivator as they arose from this composite problem. In the light of its requirements, therefore, we have examined each of these agencies and attempted to single out such of their features as might be of use for devising a scheme to meet more adequately, in future, the needs of the rural economy. In doing so, we have not only compared the relative significance of the different agencies in regard to the volume of credit which they now supply, but also tried to assess the extent to which the other requirements of the situation, besides merely the quantum of credit, were fulfilled by them. Among these requirements, for example, was the important one that the system of credit had to have within itself that which would link the credit effectively to production.

The importance of this consideration was underlined by the national programme of production. Finally, in the previous chapter, we have placed these agencies together and reviewed their record individually and in comparison with one another.

Formulation of lines of solution

2. The stage is, therefore, now reached when further steps towards the formulation of what we have called 'solution' may appropriately be taken by correlating the more important aspects of the problem with the more promising features of the agencies available. Such correlation alone, of course, will not suffice to yield us a scheme that is likely to meet the problem. Depending on the priorities between individual elements of the problem and the absence or relative insignificance of effective response to those priorities on the part of one or more of the existing institutions and agencies of credit, the need may well arise for devising new agencies or for considering the expansion or modification of those which we have already studied. Further, there is the extremely important question of how these new or modified forms of institutional activity may in turn be co-ordinated with one another, so as to form a purposive and integrated scheme which attempts to provide an answer for the more pressing aspects of the total problem. In this chapter, and in the two which follow, we are concerned, therefore, with three broad questions:

(1) What are the priorities to be assigned to different aspects of the problem and, consequently, what are the more important items to be kept in mind in designing a scheme for meeting those requirements?

(2) Which of the existing agencies, and with what modifications if any, may properly be fitted into such a scheme? and

(3) What new devices of organization, including wholly new institutions if necessary, will be needed for meeting those important aspects of the problem for which it may not be possible to find solutions in any other manner?

It is by seeking answers to these questions that we believe that further steps can be taken which constitute an approach to final solution. We would here repeat what we have already stressed in Chapter 1, viz., that in using the word 'solution', we have been guided by considerations of convenience and that we do not imply that either the purpose or the claim of this Report consists in finding, in any one scheme, a completely adequate answer to all the complicated and numerous requirements of rural credit. All that can be attempted is to devise something which will provide the maximum degree of adequacy which seems practicable and attainable from the point of view of the financial, administrative and other implications involved in the different measures contemplated. It is, therefore, in this sense alone that we would be understood to make use of the word 'solution'.

Let us now consider the priorities of the problem, first in so far as they relate to credit itself and, thereafter, as they relate to important aspects connected with credit.

Development of co-operative credit

3. We may start by setting down certain propositions at this stage which, even if they should seem too general, can be given concrete shape as we proceed. One basic consideration has already been emphasized: whatever may be the transitional stages by which the reform is effected, there is eventually no effective alternative to a co-operative form of institution, at any rate at the village level and for dealing direct with the cultivator. In that sense, the main requirement is to make the co-operative credit organization in its primary form, whether short-term or long-term, a much more effective institution than it is at present, i.e., strengthen its structure, increase its financial resources and extend its membership so as to cover a much larger section of the rural population. It may be envisaged that, in this process, the ordinary credit society would no longer as a rule be confined to one village but wherever necessary extend to a suitably wider area. The need for reorganization does not, of course, stop with the bottom layer of co-operative credit. Such a layer has necessarily to be connected with the living co-operative organism which reaches out from the village to the topmost financial institutions in the country, and which, if it is to be vital, has to have the requisite strength and resources at each level of its existence. Such a development of co-operative credit cannot, it is obvious, be achieved all at once if we bear in mind the weaknesses which it displays today at most of these levels and in most of the regions of the country. If our diagnosis is correct, the weakness at the most important of the levels, viz., the base, is mainly attributable to the fact that the co-operative form of organization has to face not merely the competition but also in large degree the positive opposition of a powerful array of nonco-operative private individuals and institutions. To expect such a base to produce, by the process of federation at different levels, a strong superstructure is, as we have pointed out, likely to prove as futile in the future as it has in the past. It must first be strengthened against both competition and opposition; and the strength which is to be imparted is not merely in respect of credit but also of processing and marketing, the two aspects most vitally connected with credit. The prior requirement, so far as credit by itself is concerned, may be said to be the strengthening of the upper levels of the structure, i.e., those above the primary society, by such measures of State participation, and for so long, as necessary, in order that a powerful helping hand may be held out, capable of guarding the primary structure against the dangers and weaknesses inherent in the present functioning of the co-operative credit system as a whole. What has to be available to the primary credit society is not an ' orthodox ' co-operative banking system at the district and State levels, but a strong institutional support at these levels. While this supporting organization should be so designed that it can in time be converted into a system which is fully ' co-operative ' in character, it is not necessary to aim at bringing about such conversion within a relatively short time. Given such a system at the district and State levels, it may then be possible for the primary society to evolve into a strong credit structure; but even at this level, State participation might be necessary to impart adequately the initial strength needed; only, there should be a definite programme for enabling the State-aided primary society to convert itself into a fully co-operative institution within as short a period of time as practicable. The line of solution, therefore, would seem here to be that of the State taking up the gap in the requirements of share capital, technical assistance, administration and organization to such an extent that immediate strength is imparted, but in such a manner that this paves the way for the co-operative forces to gather strength and gradually replace the finances and services made available initially by the State. This

process, as we have pointed out, could at the primary level be helped to be quicker than otherwise possible if the strength derived from the State is retained for as long as necessary at the other levels.

Extent of reorganization

4. While these are the more important requirements of policy as they seem to be indicated by our analysis of Co-operation as it operates at different levels, there also follow a number of other requirements, almost as important, in regard to the working of the co-operative organization. These requirements are connected with (i) the need for co-ordination between different sections of the structure, (ii) the clear demarcation of the functions of administration, supervision and audit, and (iii) the proper provision of trained personnel for efficiently carrying out these functions in different parts of the structure. The lines on which a reorganization of the co-operative system is attempted, therefore, will have to take into account the need for bringing together, rather than separating and duplicating, those sectors of co-operative credit which deal with long-term lending on the one hand and medium and short-term lending on the other. Such reorganization would also have to strengthen and co-ordinate the arrangements which now exist for administration, supervision and audit. Finally, the problem of training personnel for the new institutions to be set up as well as for those which are to be extended in scope will have to be taken up with the utmost vigour and as part of a wider plan of reorganization.

Joint efforts of State Governments and Reserve Bank

5. We may now consider the possibility of such comprehensive reorganization of the co-operative agency being brought about with the help of one or more of the other agencies which we have dealt with, since it may be firmly assumed that the co-operative movement will not be in a position by itself to effect a reform so radical as that implicit in the development envisaged. To our mind it is obvious that the most significant potentialities in this respect are to be found in the Reserve Bank. We have, in assessing the record of the Reserve Bank in recent years in its relations with the co-operative movement, brought out the directions and contexts in which that institution has been able to promote the organizational development of the co-operative credit movement, besides increasing the resources available to the Movement. As we have pointed out, it has been possible for the Reserve Bank to do this because there is a 'felt need' on the part of the State Governments in regard to agricultural credit, since the pressure for more adequate arrangements in respect of credit for agriculture is great on the State Governments through their legislators and people; and the conjoint endeavour, made possible by the Reserve Bank's own initiative in this matter, has borne immediate fruit because, on the one hand, the Reserve Bank was both willing and able to provide short-term finance after certain measures of reorganization were undertaken and, on the other hand, the State Governments were prepared to undertake these programmes if the prospect was assured of the reforms resulting in the larger availability of finance. The realistic attitude taken by the Reserve Bank greatly helped in this. The Bank agreed to make the finance available even during the interim stages preceding full implementation, provided only the State Governments firmly endorsed the programmes of reorganization put forward and, at the same time, guaranteed to the Reserve Bank the repayment of the loans given to co-operatives. This went a long way towards the success of the process of implementation itself. The implementation is, of course, not complete. It has been

successful particularly at the higher level represented by state co-operative banks of which, as we have pointed out, a large number have been either newly established or reorganized by the State Governments concerned. In this constructive combination of policy and effort between the Reserve Bank and the State Governments we see one of the most important ways in which a much larger programme of development can be undertaken.

Loans to State Governments for contribution to share capital

6. Let us examine the factors which are either beyond the control of the Reserve Bank or which, because of avoidable limitations on the present activities of the Bank, impede a much fuller programme of reorganization. To take the apex structure first, while the Reserve Bank can, if certain conditions are satisfied, make short-term accommodation available in much larger quantities than the state co-operative banks can at present obtain, it cannot, under its present constitution, assist the State Governments by lending them the amounts with which they might participate in the share capital of their state co-operative banks. In a much larger expansion of credit activity, it is clear that unless the share capital of the state co-operative banks, as also of the central co-operative banks, is greatly increased, no large-scale strengthening and expansion of the structure at this level is possible. One line of solution, therefore, which may be tentatively suggested here is that of enabling the Reserve Bank to make loans to the State Governments for the purpose of their participating in the share capital of state co-operative banks and through the state co-operative banks, in the share capital of the central co-operative banks. It is necessary, at this point, to stress the principle that it is the State Governments which must ultimately be responsible for the expansion of the structure: this follows from the fact that Co-operation is a State subject (as are the interrelated subjects of agriculture, cottage industries and so on) and we see no valid reason why it should not remain so. On the contrary, there is every reason why it should. It is the State Governments which are in contact with the cultivators; it is they who have direct administrative access on a large scale to the villages; and it would obviously be unrealistic to attempt to take away from the State Governments a primary responsibility towards the village such as exists in its relation to Co-operation, just as it also exists in relation to agriculture, cottage industries, etc.

In the same context may also be mentioned another avoidable limitation which has hitherto prevented the Reserve Bank from promoting the establishment of land mortgage banks in States which do not have them, this inability persisting even after some of the legal impediments to such establishment have been removed by the modification of land tenures. In this sphere also, if the Reserve Bank could be put in possession of funds of a suitable type and statutorily enabled to lend to State Governments for participation in the share capital of land mortgage banks, the promotion of these banks on a much larger scale would be made possible. We would stress in this connexion that it is obviously desirable that the Reserve Bank, which, through its ability to offer credit, is in a position to persuade State Governments to establish institutions which can receive that credit, should also be enabled to lend to State Governments such amounts as may be necessary to put them in a position to participate in share capital. This would lead to co-ordination as well as effectiveness of action. So much, then, regarding one line of reform which will enable the Reserve Bank to assist in the establishment of new institutions or the strengthening of existing ones.

Provision for larger credit, short, medium and long, from Reserve Bank

7. Further, the co-ordination of these institutions at all levels could be ensured by the Reserve Bank, partly by *ad hoc* advice and partly by means of the schemes of reorganization which it draws up in consultation with the departments of State Governments for the consideration of those Governments. Once the institutions are established, the Reserve Bank should also be in a position to give much larger assistance by way of credit accommodation than it is able to do at present. So far as short-term credit is concerned, no substantial changes would seem necessary in the statute governing the Bank; for one thing, the proposed increase in the share capital of state co-operative banks, central banks and societies, can well result, even under the existing arrangements, in much larger short-term borrowing than at present from the Reserve Bank. But in regard to medium-term credit and long-term credit—both of them of special importance to development and both of them insignificantly channelled at present through co-operatives—it is obvious that the Reserve Bank of India Act should be amended and financial dispositions made so as to make it possible for the Bank to be of much greater assistance than at present through the medium of the reorganized co-operative credit structure. In this respect, there has, of course, been an improvement in the recent past in that the Act has been amended to enable the Reserve Bank to lend for medium-term purposes, that is to say, for periods ranging between 15 months and 5 years, amounts which together do not exceed at one time Rs 5 crores, the further limitation being that no one state co-operative bank may borrow more than the total of its owned funds. Here it seems necessary to make, through legislative amendment and other necessary ways, such modification in the present system as will enable the Bank to lend a much larger amount.

Stabilization of agricultural credit

8. There are other and important aspects in which suitable financial and legal modifications of the present position should enable the Reserve Bank to be not only of much greater assistance to the co-operative structure, but also of much greater significance in the matter of initiating reform and regeneration. We have elsewhere indicated how important it is for the co-operative credit system, from the point of view of its own future development, to gain and retain—in many areas regain and not lose again—the confidence of the depositor in his particular institution as well as in the system as a whole as it pertains to his individual State. Apart from State participation, which itself will make for greater confidence in co-operative banks, one needed direction of action is that of making suitable arrangements for the stabilization of co-operative credit institutions in those temporary contingencies which arise as a result of famine, drought, etc. When these happen, short-term loans are often quite understandably not repaid in time and the consequent dislocation may, if it is grave enough, be such as to affect the very stability of the co-operative banking organization. It is, therefore, necessary to encourage primary societies if possible, but certainly central co-operative banks and state co-operative banks, to institute agricultural credit stabilization funds as part of their normal financial arrangements. But this by itself, for a long time to come, is not likely to be an adequate way of providing for these contingencies; and an important form of assistance in this context would be for the Reserve Bank to build up a fund which can, on stated conditions, be drawn upon for the benefit of the co-operative institutions in emergencies such as those we have mentioned. The principle here would be that a short-term loan due to be repaid

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by a state co-operative bank to the Reserve Bank would be allowed to be converted into a medium-term loan in stated circumstances. When those circumstances occur, the Reserve Bank would draw on the fund to enable conversion of the accommodation from short-term to medium-term. The technical way of doing this would be to treat the short-term loan as repaid to the Reserve Bank, a medium-term loan having been given instead from the Bank's stabilization fund. Two principles to be stressed are: (1) that the provision and operation of this fund should be such that it should not encourage the co-operative institutions to come up to the Reserve Bank for this facility unless in demonstrably valid circumstances, and (2) that the Reserve Bank's financial responsibilities in this context should not go beyond the extension of the period of accommodation. For example, the responsibility of affording outright relief, which might quite legitimately be needed when from a mere temporary dislocation there arises a grave agricultural situation in a particular State, will certainly have to be institutionally provided for, but such a responsibility will have to vest not in the Reserve Bank but, in our view, in the Government of India. Hence, another way of strengthening the co-operative structure would be to institute a suitable fund for this purpose in the Ministry of Food and Agriculture of the Government of India.

Training of co-operative personnel

9. There is another important line of prospective solution with which the Reserve Bank as well as the Ministry of Food and Agriculture are now intimately connected, viz., the provision of training facilities on an all-India basis and for all levels of training. This has been provided through the Central Committee for Co-operative Training to which we have referred in detail elsewhere. The programme of this Committee should obviously be drawn up and implemented in intimate co-ordination with the credit development programmes of the Bank itself. In such co-ordination we see a line of activity which is not only very promising in itself, but is extremely important for future solution, since no large institutional development such as we envisage will be possible without provision for the training of personnel. It will have to be ensured that the qualifications of the personnel and the aspects of Co-operation in which they are given special training are adequately diversified in their composition.

Credit for cottage and small-scale industries

10. It would be convenient to make some mention here of another important aspect of the Reserve Bank's functions in the context of the lines of development which, in our view, are potentially important, even though this is not connected with agricultural credit. We refer to the power, which has recently been vested in the Bank by the amendment of its statute, of providing short-term accommodation for approved cottage and small-scale industries, where such accommodation has been guaranteed by the State Government concerned. The Reserve Bank's functions in this respect need not stop with lending; they can and should include co-ordination. For, in that case, along with the development of agricultural credit can go the expansion of credit for cottage industries. The latter can take place in conformity with a planned programme worked out in conjunction with the other authorities concerned, viz., the Central and the State Governments and, in particular, the institutions which have definite responsibilities in this matter such as the state financial corporations, the All-India Handloom Board, the All-India Khadi and Village Industries Board, together with the industrial co-operative societies and

co-operative banks. In the same manner as the Reserve Bank can be of great help in the promotion of new institutions of co-operative agricultural credit, so we believe can it be in the matter of expansion and reorganization of industrial co-operative societies. This aspect is extremely important in the context of the facilities to be provided for that part of the village population which is dependent on industries ancillary to agriculture as well as other cottage and small-scale industries.

Internal organization of Reserve Bank

11. Obviously, a programme of this kind will impose on the Bank very much greater executive and supervisory responsibilities than at present. Considerable strengthening and reorganization of its own relevant departments will, therefore, be necessary. Any realistic line of solution will have to provide for such strengthening as well as for the recruitment to the particular department of specially qualified personnel of the best type available for the discharge of these tasks. Among the tasks would necessarily have to be that of closer contact with co-operative societies, institutions and State Governments all over the country, and this can be achieved only if the appropriate department, i.e., the Agricultural Credit Department, has eventually an adequate number of branches in different regions of the country. The duty of the personnel of those branches will have to be inspection and supervision of a type that must not be confused with the duties of the Registrar, but which will be fundamental in the process of guiding State Governments, assessing the implementation of programmes agreed upon and generally supervising the proper carrying out of planned expansion of co-operative credit. Extremely important in this connexion would be the responsibility of the Bank to ensure that the accommodation given by it is in fact channelled effectively to all classes of creditworthy cultivators. It is important to ensure that loans are not taken from the Bank and then dissipated in part for purposes other than agriculture or denied to those who, while qualifying for the credit, also need it the most. Any such tendency will have to be detected in time and checked by the personnel of the Bank. Throughout, it will have to be remembered that the function of the Bank is constructive and that therefore any audit or supervision carried out by it is for the positive purpose of ensuring that on the one hand development takes place and on the other that it takes place, not in merely quantitative terms, but in the right directions. The expansion, strengthening and reorganization of the Agricultural Credit Department is, therefore, an important matter. The reorganization of the relevant division of the Research Department of the Bank will also be necessary. This division will have to bring to the notice of the Bank from time to time the most effective and up-to-date results of enquiry into the conditions in which, for example, credit can most effectively be used as an instrument of greater production. On both these matters, we shall later make detailed recommendations. At this stage we would only emphasize that these are among the more important of the lines on which the problem should, in our view, be sought to be tackled.

Credit for purposes other than production

12. It will be seen that all the steps we have tentatively formulated so far group themselves around two definite lines of policy, one directed towards the strengthening of the co-operative credit structure from the top right down to the district and sub-district levels, and the other towards evolving a strong and stable primary credit structure, deriving strength from the financial and technical adequacy of the upper levels of the co-operative credit system

and at the same time incorporating all such reforms (as to size, purpose, function, technical qualifications of staff, efficient performance of the duty of supervision and so on) as seem essential for the growth of really efficient primary credit societies. This, however, leaves out, while we are still on the subject of credit, two important items. One of them is the connexion between this structure and the large number of small cultivators and non-cultivators who would require credit, not so much for productive purposes connected with agriculture, as for other expenditure of various types, ordinary as well as extraordinary, the latter including marriages, funerals, and so on. These needs, of course, are not confined to the small cultivators, the agricultural labourers and the non-agricultural classes. They equally arise for a large number of the medium and bigger cultivators. It is inherent in the solution we contemplate that co-operative credit should be essentially of the nature of productive finance, including in that term such subsistence finance as is required by the producer for maintenance of his family until the harvest comes in. It is for credit required for expenditure that cannot be classed as productive, in this enlarged sense, that we have to think of other lines of action co-ordinated with what we have already formulated. This will mean that, if possible, devices should be explored which, while on the one hand institutionally connected with the primary credit society, on the other serve a population much wider than the normal membership of the society itself. For, the non-productive needs, both of the agricultural members and of the other components of village society who can be classed either as producers of different kinds and degrees or as labourers, cannot all be dismissed as not requiring notice in an institutional system. On the contrary, the expenditure on such purposes is very important even if we take into account only such of it as figures in the borrowings of the cultivating and non-cultivating classes. Considering, for instance, the proportion to total borrowings of borrowing for 'family expenditure' (most of which is generally considered non-productive), we find the percentage to be quite considerable, being about 47 per cent for the average cultivator. Even for the big and large cultivators, it is as high as 37 per cent and 41 per cent respectively; the proportion of such borrowing is still higher for the medium cultivator (about 49 per cent) and highest of all for the small cultivator (about 60 per cent). In the case of non-cultivators, family expenditure is an even more important purpose of borrowing; it accounts for as much as 70 per cent of the total. It would, therefore, be extremely unrealistic to ignore this aspect of the problem. It is, of course, obvious that, with an increasing provision of institutional credit for productive purposes, the cultivator will be enabled to meet his needs of consumption to a greater extent than now from his own resources and will therefore also have less need to borrow for purposes of consumption. Even so, consumption finance would remain a big problem.

Chit funds

13. One way of tackling the problem might be to introduce within the organization of the primary society distinct arrangements for the admission of nominal members for purposes other than productive credit and to constitute all such members *and* the normal members into what might be called a system of '*Sahaya* (or Mutual Help) Chit Funds'. The basic idea would be that, by way of provision against the more important contingencies which call for non-productive expenditure and therefore for credit for such expenditure, the members of the village society—that is, the larger-sized primary society which we contemplate—would combine themselves into a semi-co-operative organization linked with the primary society and, at periodical intervals, say, once a month, deposit amounts with the primary society for

the specific purpose of being able to borrow individually, when occasion arises, from the common contribution.

The brief account of chit funds in Chapter 5 on the 'sociological background' may be recalled. All chit funds have in common certain main elements; some of these elements have varying forms; and different types of funds incorporate different variants. There is, first of all, a stakeholder who organizes the system, gets the deposits and makes the disbursements. He derives certain advantages such as the use of the money during the intervals; and the residual advantage, after disbursements, amounts to a return on his effort and investment. Then there are the other partakers in the chit fund whose benefit may be based on different principles and conceptions. One of these is the 'bid' system, where the member in effect offers a higher interest because of his particular need, this offer taking the form of his accepting a lower amount than anybody else as equivalent to the total loan. Another practice is to let chance operate. Lots are drawn and the loan allotted to the one who gets the winning number. There is yet a third method, where the chit is organized on the basis of need; such chit funds are based on the conception of mutual help, and are sometimes organized for the benefit of individual persons and their *ad hoc* needs. This last could be modified and made the central idea of a whole system, provided that certain other features of the chit—such of them as account for its wide popularity and usefulness in large parts of the peninsular south—are not wholly rejected. In the ordinary *sahaya* chit, the person entitled to the loan would be one for whom a specific need has already arisen. Any such system, however, would have to be adopted with the necessary modifications if it is to serve the needs of a large number of individuals who are not always in a position to forecast their requirements. (Obviously nobody will ask for a loan for a funeral, in advance, on the ground that a member of his family will shortly die.) A suitable device would seem to be to let an impersonal 'needs fund' play the part of the needy borrower, and provide for loans from this fund to those whose needs have actually arisen. The primary society, then, will be the stakeholder. The 'needs fund' will be at any rate *one* of the borrowers: the initial borrower on behalf of potential individual borrowers. But at this stage we come up against the difficulty that the wider chit fund itself—of which the 'needs fund' is merely a constitutent—is hardly likely to attract a large enough membership, since few will join merely in order to contribute to a 'needs fund' from which they themselves may or may not have the occasion, and therefore the right, to borrow. It is after taking this into account that we would suggest the following as an attempt at solution:

(1) The primary society, as we have already said, will be the stakeholder of the chit fund.

(2) A particular amount, or graded amounts, will be prescribed by the society as periodical (e.g., monthly) subscription.

(3) Membership of the chit fund—as distinguished from membership of the primary credit society—will be open to all villagers acceptable to the society: cultivators as well as non-cultivators, producers as well as labourers. Those admitted will be 'nominal' members of the society.

(4) One-third of the periodical subscriptions will be treated as fixed interest-bearing deposits placed with the society itself. An individual member will be at liberty to withdraw such deposits of his after a prescribed period. This part of the

contribution will not be included in the chit fund and will not figure in disbursements.

(5) Another third will be earmarked towards a ' needs fund '. The loans available from this fund will be subject to specified ceilings. These limits will be graded for different classes of subscribers, if the subscriptions themselves are graded. A nominal member will be eligibile for a loan only when a ' need ' has actually arisen, the need being one of a specified category such as marriage or death in the family or a costly illness. Disbursements for this purpose will be made by a committee of the society. In cases of emergency, this committee will consider the applications as they come; in other cases it will consider these at suitable intervals. If the ' needs fund ' is sufficiently large, it might be possible to meet, to a reasonable extent, the needs of all members for whom such occasions have arisen. If it is not, the limits will have to be correspondingly lower.

(6) There remains the last third of the amount collected by subscriptions. We suggest the disbursement of this part by lots as under one of the systems of the chit fund which we have mentioned. Having provided for needs of members on the one hand and for deposits of the society on the other, we perceive no objection to, but on the other hand see every reason for, the inclusion—to this extent and in this form—of an element of the chit fund which is an important ingredient of its widespread popularity. By rejecting this feature altogether we shall be making the scheme insusceptible of wide adoption in the very process of formulating it; and, apart from the scheme here suggested, by merely ignoring this feature we shall not be eliminating it from the large network of chit funds into which it is firmly woven. Much the wiser course would be to devise an institutional substitute for the chit fund system itself, in the different forms in which it now operates and, while not completely segregating the substitute from existing facts, so to design it as to make it a possible step in the evolution from one set of motives to another and better set of motives. It was Marshall who said that social progress depends upon enlisting not only the highest but also the strongest motives of human behaviour.

A scheme on the lines we have suggested opens out another possibility of which some mention may be made. Even where the ' needs fund ' is sufficiently large, the loans from it for marriages, funerals, etc., should be limited to what is reasonable, as distinguished from what in usual practice is extravagant. These limits should be carefully fixed for different classes of needs and, if necessary, for different classes of subscribers. The representatives of the primary society could attend the marriage or funeral and satisfy themselves that the expenditure is in fact fairly reasonable. What we consider should be aimed at is the building up—not only by this means, of course, but by a variety of others as well, such as effective propaganda in this behalf—of a social conscience and a social sanction against extravagance. The scheme should at the start be introduced only in promising areas after details, including those special to the locality, have been thoroughly worked out. It should ordinarily be introduced only in the areas of the more efficient and larger-sized primary societies. But, when introduced, it may be necessary to ban by legislation certain specified types of chit funds in the area, especially those likely to compete with the society's own chit fund.

14. The other important aspect in which credit activities at the village level have to be co-ordinated with the system we have proposed for the higher levels of the credit structure is that of the productive needs of the non-agricultural classes, that is to say, of the village handicraftsman, the worker in small industries, the cultivator who takes up a cottage industry in his spare time and so on. This aspect does not directly fall under our terms of reference but is obviously very vitally connected with them. The broad line of solution which it seems necessary to explore and which, in the context of the others we have explained, seems most appropriate, is eventually to channel such credit too through the co-operative credit structure. In other words, there should not be a duplication of co-operative institutions of credit for different purposes. It will, therefore, be necessary at the appropriate stage to consider broad suggestions as to how the credit society might also be used for channelling credit for productive purposes connected with activities other than agriculture. Naturally, in this matter, the risk of the particular cottage industry should not fall on the society itself; adequate guarantees may, therefore, be necessary. Also the entire system will have to be co-ordinated with marketing arrangements. The All-India Handloom Board, the All-India Khadi and Village Industries Board, etc., will have to be considered in this context, and the question examined of the co-ordination of their functions and financial operations with those of state financial corporations, industrial co-operative societies and co-operative banks, and finally the Reserve Bank itself, in so far as a recent amendment of the Reserve Bank of India Act now makes it possible for the Bank to give short-term accommodation to specified cottage industries on stated conditions. Thus, the co-ordination will not only be between the different institutions, but also between the needs for different types of accommodation such as short-term, medium-term and long-term. Lastly, the technical part of the arrangements will have to be co-ordinated with the credit arrangements. But what we are here concerned in stressing is the desirability of not duplicating the credit institutions themselves. All this assumes that the particular productive non-agricultural activity is organized on a co-operative basis. Some of course are not so organized and, among them again, it may be that some cannot suitably be so organized. In such cases, it is obvious that credit will have to be arranged through some other means and not usually through the co-operative society. We shall have to keep this contingency also in mind in suggesting final lines of solution. In all these matters again, we consider that the Reserve Bank can play a crucial part both by promoting institutional development and by co-ordinating existing institutions in the sphere of credit. For such a role in the sphere of cottage industries—corresponding to the one it is already playing in that of agriculture—it is much better placed now than before, by reason of the power which the recent amendment gives it of being able to grant short-term accommodation to state co-operative banks and through them to primary and other industrial co-operative societies.

Productive credit needs of the non-agricultural classes

CHAPTER 27

FORMULATION OF SOLUTION (II): DEVELOPMENT OF (1) STORAGE AND WAREHOUSING AND (2) CO-OPERATIVE ECONOMIC ACTIVITY INCLUDING PROCESSING AND MARKETING

Rural economic activity

In Chapter 26, we have dealt with certain features of the problem which are more or less intimately connected with credit; in consequence, all the main lines of action there suggested as possibly leading to solution group themselves round credit as the central feature. We propose to devote this chapter to a very brief preliminary consideration of another set of measures connected with another series of needs, namely, the more important of those which arise from rural economic activity as a whole, of which credit is only an aspect and a reflection. One way of looking at this activity is to see it as made up of the different stages through which the produce of the cultivator passes once he has harvested it. There are the four important stages of processing, storage, transport and marketing. The cultivator may not be directly concerned with each of these; nor of course do they always occur in this particular order; but the main point is that, if the analysis attempted in some of the preceding chapters is valid, then these constitute together a sector which, for the purpose of benefiting the cultivator and evoking and marshalling his enthusiastic participation, is even more fundamental than credit itself. We have pointed out how, with powerful and sympathetic outside help it has sometimes been possible so to organize these activities on a co-operative basis that the cultivator takes effective part in their conduct and in any case derives substantial benefit from their having been organized in that manner. Indeed, in a few instances, the results of such organization are extremely encouraging and a number of difficulties are solved which otherwise stand in the way of the development of the credit system itself. By way of illustration, we have mentioned some of the cotton-processing societies in Bombay, the significant instance of the co-operative sugar factory at Pravaranagar, also in the Bombay State, the sugar-cane co-operatives of Uttar Pradesh, the milk co-operatives of Madras and so on. This is in many ways one of the most basic lines of solution we have to suggest.

Storage and warehousing

2. We may first consider storage. Sometimes, but to an insignificant extent, it is co-operatively organized. The most promising developments in this direction have taken place where the State Government concerned has given subsidies and loans to societies, occasionally to marketing societies, for constructing and running co-operative godowns. War-time

conditions gave a fillip to this activity when, as in Madras and Bombay, the State Governments displayed positive interest in helping co-operatives to provide themselves with storage in order that they in turn might assist the State in the distribution of foodgrains and sometimes their procurement. We have also noted the pursuit of this line of activity in Uttar Pradesh, where seed-stores have received special encouragement and been set up in a certain number of places with the assistance of the Government. But neither in these States nor in the country as a whole has the development of organized storage, co-operative or other, been appreciable. The most important reason for this lack of progress, in spite of a large mass of legislation in regard to warehousing, has been the fact that no specific body or institution has displayed real interest in storage and warehousing. This has been partly due to the fact that the cost of constructing godowns and warehouses is, in present conditions, often high in comparison with the return which may be expected on them, especially during the first few years of constructing and running them. It follows that, without an element of subsidy on the one hand and a strong and sufficiently widespread organization on the other for carrying out a definite programme, there is little hope of making an impression on the problem. There are, of course, other and grave difficulties besides that of cost and return; some of them are connected with the grading of agricultural commodities, the availability of adequate personnel, the question of providing training facilities for such personnel and so on. While the lack of concrete measures is thus conspicuous, there has been no lack of exposition of their need or of recommendations that they should be undertaken. Thus, to go no farther back than 1945, the Agricultural Finance Sub-Committee said of warehousing:

> " From the point of view of agricultural marketing, warehouses might be considered as extensions of the system of transport and the planning of the location of warehouses must be done as part of planning the extension and improvement of transport facilities. The construction of a chain of warehouses is unlikely to attract immediately sufficient private capital and it might also not be desirable to leave the running of the warehousing system in private hands. We, therefore, recommend that the State should itself undertake, as part of its programme of development of rural transport, the planning and construction of warehouses at all nuclear points of trade in agricultural produce. The warehouse system should be operated by a public corporation organized on lines similar to those of Improvement Trusts or Port Trusts. This would provide for a better and more economic management of the system than if the warehouses were owned by individuals or particular sale societies and would also facilitate the issue of warehouse bills."[1]

The Rural Banking Enquiry Committee (1950) also emphasized the importance of storage and warehousing in relation to rural credit and rural banking. Recognizing the all-India character of the problem as well as the need for State finance and State subsidies in tackling it, that Committee suggested the formation of a Warehousing Development Board with a large capital for the purpose of giving loans and subsidies to those who were prepared to take up this line of activity as a business. But in the absence of a detailed scheme whereby execution and implementation—and not merely finance and subsidy—

[1] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 58.

could be secured, no progress has been made in pursuance of this recommendation. The Reserve Bank has since carried out a study of the relevant conditions in different States which broadly confirms that the difficulties are cost, finance and organization.

Warehousing development

3. We are not less impressed than previous committees with the magnitude and urgency of a problem which is connected with one of the gravest economic handicaps of the cultivator. The effort called for in its solution has to be both concerted and country-wide. In these two aspects, viz., the area to be covered and the co-ordination to be effected, the direction and endeavour required may well be compared to those which have gone into the construction of the railway system of India or the laying out of its roadways. For effective action, the broad set-up would seem to have to be on the following lines:

(I) A planning and financing body at the Centre, e.g., under the Ministry of Food and Agriculture, sufficiently expert and representative and adequately provided with finance, which would plan a whole system of storage and warehousing, after taking into account such part of the civil supplies storage of the Central Government and the State Governments as may be suitable for the purpose. This body would plan for the whole country and would be put in a position to subsidize and finance. At the same time, it would be organizationally related to different co-ordinated agencies which would carry out the programme.

(II) The agencies themselves could be broadly divided into three categories: (i) an all-India organization for development of storage and warehousing at points of all-India importance; (ii) State organizations concerned with points of State or district importance, and (iii) co-operative organizations at the taluka and village levels.

At the intermediate level, the State Government would have definitely to come in; but, at the all-India level, we envisage the funds as deriving, not only from the Central Government, but also from various banking, insurance and other financial institutions. Our broad lines of solution in this matter would, therefore, be the establishment of (1) a national board which plans and finances; (2) an all-India corporation with share capital from the Central Government and from various institutions; (3) state warehousing companies in which the State Governments on the one hand and the corporation on the other participate, and (4) the co-operative societies at the very base of the programme.

Certain important considerations

4. We have given detailed consideration to the manner in which all the four components mentioned above may be effectively linked into one purposive organization and our recommendations in this respect will be found in Chapter 35. At this stage, in anticipation of what is elaborated in that chapter, we shall mention in very broad terms certain considerations of importance which we think should underlie the formulation of details. First, we are definitely of the view that State Governments should not be left in the position of each having to obtain the capital required for its company from banks, insurance companies, etc. Many would be unable to do so on an adequate scale, and in any case the

same banks, insurance companies, etc., would be approached in turn by one State Government after another. Provision for institutional participation in the state companies might, therefore, be reflected in the share capital of the all-India corporation itself and the latter empowered to form state companies jointly with the State Governments. The state companies for their part could be similarly enabled to participate in the share capital and management of the relevant co-operative organizations. The training of personnel would be extremely important and this could, under the general direction of the national board, be organized by the all-India corporation in conjunction with (1) the Bankers' Training College of the Reserve Bank and (2) the Central Committee's co-operative training institutions. In order that proper arrangements for the grading of agricultural commodities may be instituted in the godowns which are to be set up, it would be necessary to provide for this feature as well in the training courses for the warehousing personnel of the corporation and its auxiliaries. Along with storage and warehousing could go the distribution of certain essential goods which the cultivator requires as producer and as consumer. In other words, through the organization in charge of storage and warehousing, and on an agency basis, could be distributed fertilizers, seed and so on, as well as kerosene and other basic requirements of the villager. Organized in this manner—through an all-India warehousing corporation, state warehousing companies, and co-operatively managed warehouses and godowns (including seed-stores etc., run by marketing societies or by purchase and sale societies) – the function of distribution alone, even if we ignore the rest for the moment, will be seen to have tremendous potentialities. Experience hitherto, for example with the multi-agency distribution of fertilizer, has been none too happy. Not only for fertilizer, but also for all the numerous other items which have to be effectively channelled to the cultivator under the grow-more-food scheme—such as improved seed, agricultural implements and so on—an India-wide agency which supplements, supports and builds up the co-operative agency as the final nexus with the village will fulfil a wide-felt need of organization. At the co-operative end, by working in close conjunction with credit societies, the organization can help to provide credit in kind (instead of in cash) to the maximum possible extent, a most important consideration in view of the extent of misuse of credit when it is in the form of cash. An organized system of warehousing and storage, together with the trained personnel which goes with it, can also provide a very important part of the solution, should such at any time be required, for a problem of either price control on the one hand or of price support on the other in regard to agricultural commodities. Hence the great importance from many points of view of pursuing such a programme with the greatest determination possible and all the finance needed together with the most careful preliminary planning.

Planned development of co-operative processing and marketing

5. An important item of activity, sometimes before and sometimes after storage, is the transport of produce to the marketing centres; and this in turn is connected with the availability of an adequate network of village roads and communications, including ferries, bridges, etc., wherever necessary. On this point we have, in Chapter 6, given statistics to show the extreme inadequacy of such communications. In this context too, therefore, there is need for a determined and effectively planned programme on a country-wide scale. Without dwelling on this point here—we shall have occasion to refer to it again in Chapter 44—we may go on to the other two stages, namely, processing and

marketing. In regard to these two items, the importance of planned co-operative development, and of effective State participation which alone can bring about the development, can hardly be exaggerated. Here again the partnership of the State will involve the provision by it of financial, technical and administrative assistance. It is therefore necessary to examine how best a programme of this kind can be devised; and, as in the case of storage, it is only in broad outline (to be later filled in) that the solution is proposed to be considered at this stage. It will be recalled that we are proceeding on the assumption, which seems very valid, that as regards planned co-ordination and financial provision at the all-India level, the broad division of functions is that the Reserve Bank should look after the credit programme and the Government of India after the other parts of the economic programme, the main responsibility in either case resting with the State Governments. It follows from this that, in conjunction with the State Governments, the Ministry of Food and Agriculture should be associated with the development of co-operative processing and co-operative marketing on a nation-wide scale. In other words, the Ministry would have to be institutionally linked with this part of the programme no less than with the one concerned with the development of storage, warehousing and distribution. For the latter, we have mentioned a national board as providing the link. We envisage the board as equally serving the purpose of an all-India planning, financing and co-ordinating body in the context of the development, by State Governments, of co-operative marketing, co-operative processing and other co-operative economic activity. An appropriate designation for this body would therefore be the National Co-operative Development and Warehousing Board. It is necessary to bear in mind that the functions which fall to be discharged in a programme for State participation in co-operative economic activity, such as processing and marketing, are essentially State functions—the State in this case meaning the State Government—even though they will be State functions which are positively aligned to co-operative activity at the base. On the other hand, warehousing and distribution, the one as a business proposition and the other as an agency function, can well be expected to be taken up, at the higher levels and under the guidance of the Board, by a corporation (and its auxiliary companies) in which different business and financial interests, besides the Government of India and State Governments, are represented. There will therefore be two lines of co-ordination meeting in the National Co-operative Development and Warehousing Board: (1) one relatable to storage, warehousing and distribution and connecting the Board to the all-India corporation, the state warehousing companies and the appropriate co-operative societies and (2) the other relatable to co-operative economic development (processing, marketing, etc.) and connecting the Board to the State Governments, their co-operative departments, and here again the relevant types of co-operative societies. In the latter case, as in that of development of co-operative credit, the main function at the all-India level, besides planning and co-ordination, would be the making of adequate financial provision for certain purposes such as (1) advancing loans to State Governments so that they can, irrespective of their current financial position, contribute to the share capital of processing and marketing societies (it may often be that one and the same society discharges both the functions) and (2) giving subsidies to State Governments so that, together with their own contributions, the State Governments may be able to subsidize societies to the extent necessary. It is of course important that the programmes should be launched after the relevant conditions of a particular area are studied, finance is adequately provided, and the full complement of trained personnel is secured. In other words, every precaution must

be taken that the initial 'experiments', if indeed they may so be called, are assured of the maximum prospect of success.

Other aspects of a programme of co-operative development

6. That takes us to the point that a programme of 'co-operative development' (apart from the development of co-operative credit for which other arrangements have been suggested) must include a great deal besides processing and marketing, though these two, from the point of view of economic reorganization, are undoubtedly the most strategic. The question of cottage industries need not detain us here; we shall have occasion in Chapter 44 to make a few suggestions on this subject which, extremely important though it is in the total context of our enquiry, is not quite directly within the actual scope of our investigation. Storage, warehousing and distribution of basic commodities, we have separately dealt with. Even so, a full list of economic activity on the co-operative basis would, besides processing and marketing, include consolidation of holdings, bunding, farming, irrigation, livestock-breeding, dairying and fisheries. The development of these and similar activities, by provision of finance and technical services, and by proper administration, will be one of the two main objects of the National Co-operative Development and Warehousing Board. As we envisage it, the Board's function in respect of co-operative development will in turn be twofold. There is first of all the *planning* of such development on the basis of the joint participation of Government and the co-operatives. Secondly, there is the *financing* of the development; this, as we have mentioned, will take the form of loans, in preference, and subsidies, where necessary, to State Governments. Both loan and subsidy could be made dependent on the State Government itself contributing its due share to the financing of each project or of each scheme comprising different projects. While loans would, of course, be made repayable at reasonable rates of interest over a suitable period of years, there should ordinarily be no reason why the loans should cover the whole outlay of the State Governments. Similarly, the subsidy need not cover the whole gap between cost and return. Gradations could be laid down for both loans and subsidies. A State Government which happens to be relatively well placed in regard to its finances might be asked to contribute as much as, say, 75 per cent of the outlay or, in appropriate instances, even higher. At the other end would be State Governments for which the relevant percentage might have to be as little as 25 per cent; and there would be further gradations in between. On some such basis, then, the National Co-operative Development and Warehousing Board, through a co-operative development fund, could partly finance a co-ordinated programme for which, in its own area, each State Government would be responsible. Each State Government could also set up a corresponding co-operative development fund for this purpose. The provision of trained personnel would be equally important; and here the main part of the joint responsibility would have to vest in the Central Committee for Co-operative Training. If proper plans, adequate resources in men and money, and above all, relentless drive and direction in the employment of all these, commence to bring about the desired result even in a few villages in different parts of the country, and the fruits of State-cum-co-operative management of the basic economic activities of the country-side begin to be apparent to the rural producer, the prospect of generating real and active enthusiasm, not only in the villages initially covered but in wider areas beyond, would indeed be much greater than by any other means. The enthusiasm would be real and effective because the economic

benefit, and along with it the enthusiasm, would for the first time reach down to the medium and small cultivator.

Building up of funds and savings

7. We have already, in connexion with famine and distress, referred to the need to make suitable arrangements by way of a fund in the Ministry of Food and Agriculture in order that adequate provision may be ensured in the event of liabilities of co-operative credit institutions in the area affected having to be written off outright for no fault of their own. We have also referred elsewhere to the need for the establishment of similar funds by the State Governments. It ought to be possible to provide for one source of finance for these funds by laying down that the dividend earned by Government on their contribution to the share capital of co-operative credit institutions shall, wholly or in part, be earmarked for this purpose. Similarly, the dividends earned by Government on their share capital in joint co-operative enterprises (e.g., marketing and processing societies) could be earmarked for the co-operative development fund mentioned earlier. To both these funds, there would be, in addition, annual contributions from the State Government's budget.

Even more important would be the need to build up share capital and savings at the co-operative end. Such attempts in this direction as have hitherto been made by the co-operatives themselves—with their overwhelming preponderance of credit societies—have usually been directed to the point at which a member borrows. Thus, there has even been the practice of not giving him the full loan granted, but keeping back a part for being credited in his name to share capital. Psychologically, nothing could be less promising than this; and in reality the results have naturally been most depressing. We are not against compulsory savings up to a limit, more so in the context of the State carrying out, with the sole object of helping the rural producer eventually to help himself, so large and concerted a programme as we have in mind. But if the cultivator has to be asked to save, it should not, ordinarily, be at the point of borrowing and from his borrowings, but at the point of earning and from his earnings, or at the point of his being rendered a cheaper economic service and from what he feels he has been able to save through the availability of that service. Thus it would be very appropriate, for example, if, in State-partnered co-operative marketing societies, there should be compulsory contribution by each individual member of the society in proportion either to the turnover of the sales of his produce through the society or the size of the loan taken by him from a connected credit society. A similar provision could be made in the co-operative processing societies and in those connected with farming, dairying, etc.

Extent of State partnership

8. In regard to the extent of State partnership in societies engaged in different forms of economic activity (as in those providing credit) we would stress the great importance of making the structure from the sub-divisional and district levels upwards as strong as possible, because it is only through the provision of adequate initial strength at these higher levels that, in our view, the development of the structure at the village level is best assured. It follows that State participation in the share capital of marketing societies, processing societies, etc., at the sub-divisional level and above, should continue for an indefinite period at not less than 51 per cent. Here again, the quesion would arise as to what the total share capital should be at the initial and eventual stages, the former being an adequate

minimum and the latter the desirable optimum. Until the optimum is reached, there should not be any retirement of the Government part of the share capital at the sub-divisional and higher levels, even if it happens to be over 51 per cent. On the contrary, both Government and the co-operative participants should go on adding (in suitable proportion *inter se*) to the share capital until the optimum is reached. Thereafter, there would be retirement of Government's part of the share capital, but not so as, at the higher levels, to reduce the State's holding to below 51 per cent. At the lower levels, that is to say, for marketing societies, processing societies, dairying societies, etc., operating over smaller areas than a sub-division, the pace of retirement of the State's share of the capital through contributions (compulsory and voluntary) from the other members may be such as definitely to bring about the replacement of the whole of Government's share in a phased manner over a reasonably short period of years.

Technical assistance, supervision and co-ordination

9. The provision by the State of adequate technical assistance to such societies will of course be of the utmost importance. It will also be necessary to ensure throughout, not only as a mere matter of providing in the by-laws, but as a positive object of State supervision and as a principal item for vigilance on the part of the managers of societies etc., that every society at the primary level which receives the type of State assistance here recommended is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests adequately looked after by those in charge of it.

For societies concerned with this sector of activity, as for those connected with credit, there has also to be (besides the State Government's supervision) provision for the exercise of higher or constructive supervision at the all-India level; and the machinery designed for carrying out such supervision should also be entrusted with the task of administrative co-ordination of the implementation of all-India policy. During the initial stages at any rate, the machinery of the Agricultural Credit Department of the Reserve Bank can be advantageously utilized for this purpose as well; it will of course have to discharge this part of its duties in close co-ordination with the Ministry of Food and Agriculture. The Department has officers and staff familiar with this type of society and, pending review at some later stage, it does not seem necessary to create for the purpose a separate supervisory machinery under the Government of India. In the latter event, the duplication involved would be all the greater if account is taken of our proposal for decentralization on a regional basis of the inspecting and supervisory organization of the Agricultural Credit Department of the Reserve Bank.

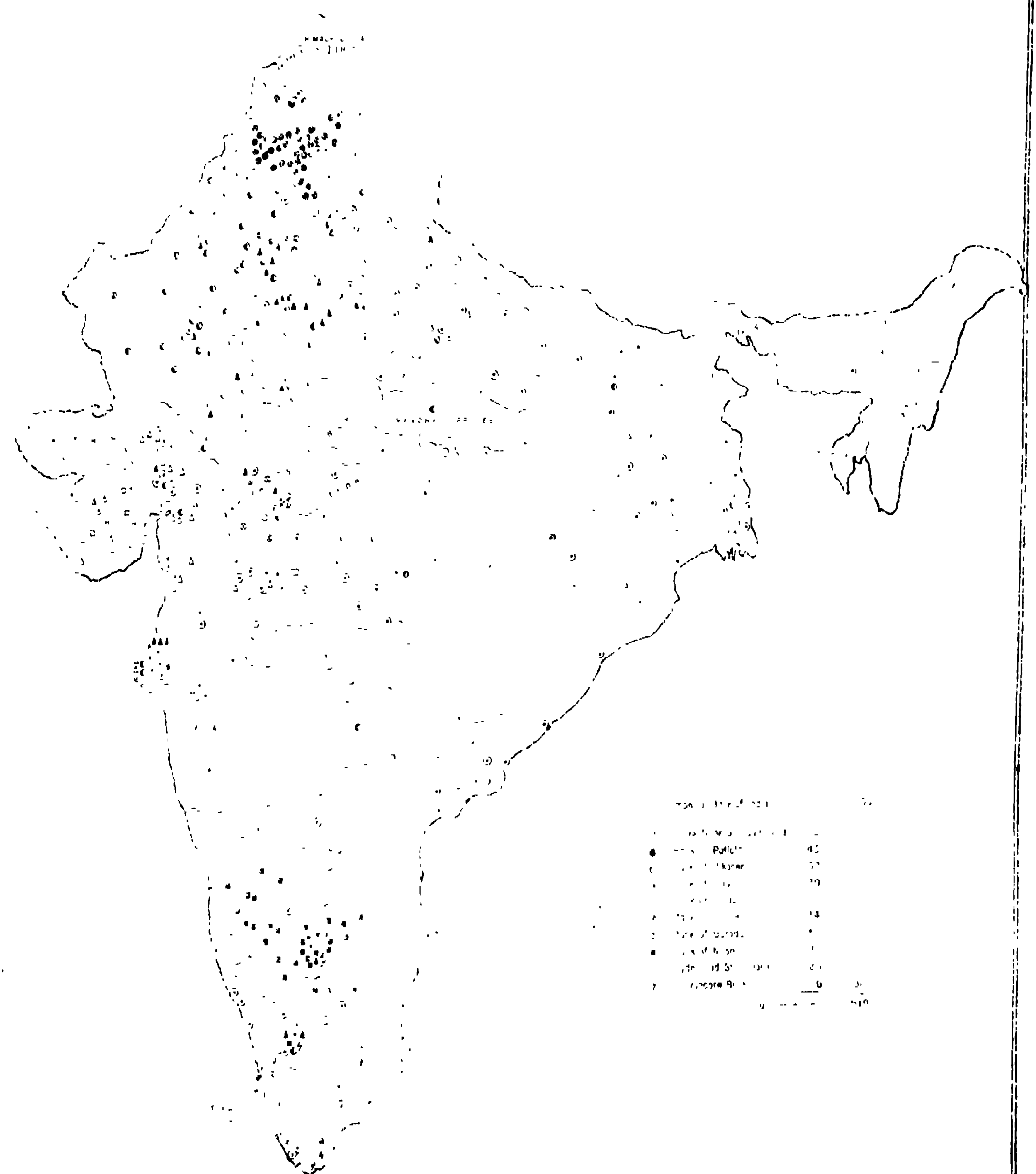
CHAPTER 28

FORMULATION OF SOLUTION (III): DEVELOPMENT OF RURAL AND CO-OPERATIVE BANKING FACILITIES

Imperial Bank and other State-associated banks

PURSUING the attempt made in the last two chapters to formulate lines of action which can be regarded as promising, we come to another distinct part of the problem which is connected with one of the most insistent needs of the rural areas. The complexities of that need have been analysed in some detail in Chapter 16. The particular aspect we are here concerned with is 'cash' or more accurately 'liquid resources'. The ready availability of such resources, partly through cheaper and prompter arrangements for remittance of money, is perhaps the most essential preliminary to the better and larger availability of banking, especially co-operative banking. This requirement and its prospects of fulfilment happen to be related in the most intimate manner possible with the Imperial Bank and the other State-associated banks. It will be recalled that, in examining the record of this group of commercial banks (Chapter 24), we pointed out that one of the most significant of their special functions is connected with the provision of facilities for making currency and cheap remittance available to banks generally, to co-operative banks with which we are here specially concerned, and to members of the public as well, besides, of course, to the Central Government and the different State Governments. For further progress in this context it is of the greatest importance that these State and State-associated commercial banks should be made to respond in a positive and helpful manner to the State's policies towards co-operative banking, co-operative marketing and other business activities of co-operatives. What is implied as needed is not the imposition on them of a compulsion of some kind to lend to co-operative organizations—the lending will be largely done by the Reserve Bank—but rather an informed and responsive sharing of purpose, which should enable these banks, without damage to their own essential character as sound commercial institutions, to work in co-ordination with Government and the co-operatives for the fulfilment of common objects in the economic and financial sphere. The question then arises as to how best this group of institutions may hereafter assist in fulfilling those objects. It is obviously desirable, if that is at all possible, to have for this purpose a composite banking organization through which the needed responsiveness to State policies can be effectively ensured. This implies a somewhat wide measure of reform, integration and reorganization. But, while bearing in mind the need thus to bring into existence an all-India instrument of the desired character, we should, at the same time, take care not to take away from it, in regard to its day-to-day working, either the flexibility or the autonomy needed to enable it to function as an efficient commercial banking institution. There may be more than one way of ensuring that all these requirements

DISTRIBUTION OF BRANCHES OF IMPERIAL BANK AND OTHER STATE-ASSOCIATED BANKS



are fulfilled. All that need concern us here, however, is the minimum of readjustment needed for the achievement of the particular objects relevant to our enquiry.

Case for integration

2. With these preliminary observations, we would invite attention to the map facing this page. It indicates the geographical distribution of the branches of the Imperial Bank of India on the one hand and of the ten State-associated banks on the other. The fact most noticeable is that the branches of the banks in question including those of the Imperial Bank are broadly *complementary* to one another. In other words, together, and without any great duplication except in the three or four big cities, they provide a network which broadly covers the whole of India. Individually, the coverage is nowhere near comparable, even if we take the biggest of them all, viz., the Imperial Bank of India. Individually, again they are unco-ordinated with one another, except to the extent to which such co-ordination has commenced to be effected through the recent arrangements which involve the appointment of the Reserve Bank as sole banker of the State Government and, in turn, the appointment of the 'State' bank concerned as the agent of the Reserve Bank. If, while bearing in mind the different considerations mentioned earlier, we should succeed in devising some process by which these banks could be integrated into one institution, and if that one institution could be effectively aligned to national policies, then indeed this would be an extremely important and extremely desirable line of development. We would observe that, to some of these banks at least, the process of integration has not been unknown in the past. The Imperial Bank itself, it may be recalled, was constituted by the amalgamation of the three Presidency Banks. The State Bank of Saurashtra, to take a lesser example, has been formed by the amalgamation of the different banks of the original unit-States. Further, in regard to the immediate future, the desirability of an amalgamation between the three State-associated banks of Rajasthan has naturally found recognition in many quarters. Not only, therefore, does a final country-wide step of integration such as would be involved in the possible amalgamation of the Imperial Bank and the State-associated banks seem wholly consistent with the past evolution of the biggest of them; but also, as a little reflection will show, such a step might be said to be quite inevitable: inevitable, that is, if we would make up our minds to pay as earnest attention to this matter of banking integration for the benefit of the whole of India—and for rural India in particular—as was accorded to the political and financial integration of the country which has been so effectively, and even spectacularly, brought about by the combined wisdom and determination of our leaders. It would seem justifiable then, in the light of these significant developments and precedents, both banking and political, to postulate as prima facie desirable an amalgamation of the type we have mentioned, consider what it would bring by way of accretion of strength and advantage, and shift the burden of dissuasion on to those who might argue that the proposed integration would involve more than countervailing weaknesses and disadvantages.

Combined availability of branches and resources

3. What the integration will imply by way of the total number of branches, pay offices, etc., which will be brought together and operated under one institution, as also of the total resources—in the shape of paid-up share capital (including that owned by State Governments), reserves, and deposits—which will become available to a bank positively associated with national policies, may be seen from the following tables:

TABLE I

Number of branches, pay offices, etc.

(As on 31 December 1953 except where an earlier date is indicated)

Name of bank	No. of branches and sub-branches	No. of pay offices etc.	Total
State Bank of Saurashtra	12	10	22
Bank of Patiala[1]	43	—	43
Bank of Bikaner	52	—	52
Bank of Jaipur	39	—	39
Bank of Rajasthan	25	—	25
Bank of Indore	14	2	16
Bank of Baroda	51	2	53
Bank of Mysore	32	—	32
Hyderabad State Bank[2]	29	24	53
Travancore Bank	16	—	16
Total	313	38	351
Imperial Bank of India	205	217	422
Grand Total	518	255	773

(Source : Statements attached to the balance sheets of the respective banks)

TABLE II

Paid-up share capital and reserves

(As on 31 December 1953 except where an earlier date is indicated)

(In lakhs of rupees)

Name of bank	Paid up share capital	Reserves[1]	Total	Share of State Governments in total of paid up capital and reserves (according to available information)	
				Percentage	Amount
(1)	(2)	(3)	(4)	(5)	(6)
State Bank of Saurashtra	100 00	40 02	140 02	100	140 02
Bank of Patiala	15 00[1]	66 78[1]	81 78[1]	100	81 78
Bank of Bikaner	50 00	17 00	67 00	5.25	3 52
Bank of Jaipur	50 00	15 00	65 00	25	16.25
Bank of Rajasthan	9.22	5 01	14 23	—	—
Bank of Indore	15 30	24 00	39 30	34 5	13.56
Bank of Baroda	100 00	128 00	228 00	16.4	37.39
Bank of Mysore	50 00	84 00	134 00	—	—
Hyderabad State Bank	64.29[2]	64 29[2]	128 58[2]	51	65.58
Travancore Bank	100.00	19.75	119.75	32.2	38.56
Total ..	553.81	463 85	1,017 66	—	396.66
Imperial Bank of India	562.50	635.00	1,197.50	—	—
Grand Total .. .	1,116.31	1,098.85	2,215.16	—	—

[1] 31 March 1953.

[2] 30 September 1953.

SUMMARY OF TABLE II

In round figures—

(a) the total assets of the State-associated banks, other than the Imperial Bank, as represented by paid-up share capital and reserves, is Rs 10 crores;

(b) of these Rs 10 crores, some of the State Governments (according to available information) together own Rs 4 crores; and

(c) for the Imperial Bank, the total of paid-up share capital and reserves is Rs 12 crores, of which somewhat less than half is paid-up share capital and somewhat more than half represents reserves.

TABLE III

Deposits

(As on 31 December 1953 except where an earlier date is indicated)

	(In crores of rupees)
State Bank of Saurashtra	8.21
Bank of Patiala	7.21[1]
Bank of Bikaner	11 84
Bank of Jaipur	6.61
Bank of Rajasthan	1.73
Bank of Indore	5.45
Bank of Baroda	30.86
Bank of Mysore	8.89
Hyderabad State Bank	14.05[2]
Travancore Bank	3.77
Total	98 62
Imperial Bank of India	207 21
Grand Total	305.83

SUMMARY OF TABLE III

In round figures—

(a) the aggregate of the deposits of all these banks is Rs 306 crores; and

(b) out of this, somewhat less than a third pertains to the State-associated banks other than the Imperial Bank and somewhat more than two-thirds to the Imperial Bank.

Much larger remittance facilities

4. These figures of branches and resources by no means complete the picture of advantage. There is, for example, the important question of remittance facilities for other banks and for the public. On the subject of enlarging these facilities, we have pointed out that, much as has been the progress achieved through the efforts of the Reserve Bank of India, the difficulties too have been great and the limitations many. We have mentioned, for example, the slowness of pace rendered necessary by the fact that some of the State-associated banks, taken individually, are not strong enough yet to be entrusted with other than a limited number of currency chests and that, quite understandably, therefore, the Reserve Bank and the Government of India have felt the need for caution and review at every stage before further progress is attempted. This set of difficulties will disappear as soon as we have, instead of a number of relatively small State-associated banks and a

[1] 31 March 1953.

[2] 30 September 1953.

relatively big Imperial Bank of India, one strong country-wide institution which can without hesitation be entrusted with as vigorous a programme of the opening of new currency chests as may be administratively feasible.

Larger 'coverage' rural areas

5. But the weaknesses which will be rectified are by no means in all cases those of the State-associated banks, as distinguished from the Imperial Bank. The position is the other way round when we come to existing branches and the proportionate 'coverage' in this respect of each of these institutions. For, as pointed out by us, some of the State-associated banks have, in their respective areas, spread farther into the interior than has the Imperial Bank of India. At this point, we would invite attention to another map, the one facing this page. This map gives an idea of the 'banking treasuries' (where the participating bank is the Imperial Bank or one of the other State-associated banks) and the 'non-banking' treasuries in different States. It will be seen at once that an integrated institution will provide, on an average, more branches per unit of area in the enlarged jurisdiction than does the Imperial Bank today, in its own jurisdiction; and that consequently there are proportionately larger possibilities of increasing the number of currency chests and the volume of remittance facilities. And all this would be rendered possible, among other things, by the automatic elimination of the various difficulties, including those which have arisen in individual States (e.g., PEPSU) or in connexion with certain banks (e.g., those pertaining to Rajasthan), to which we have referred in Chapter 24 as factors seriously inhibiting progress in this direction.

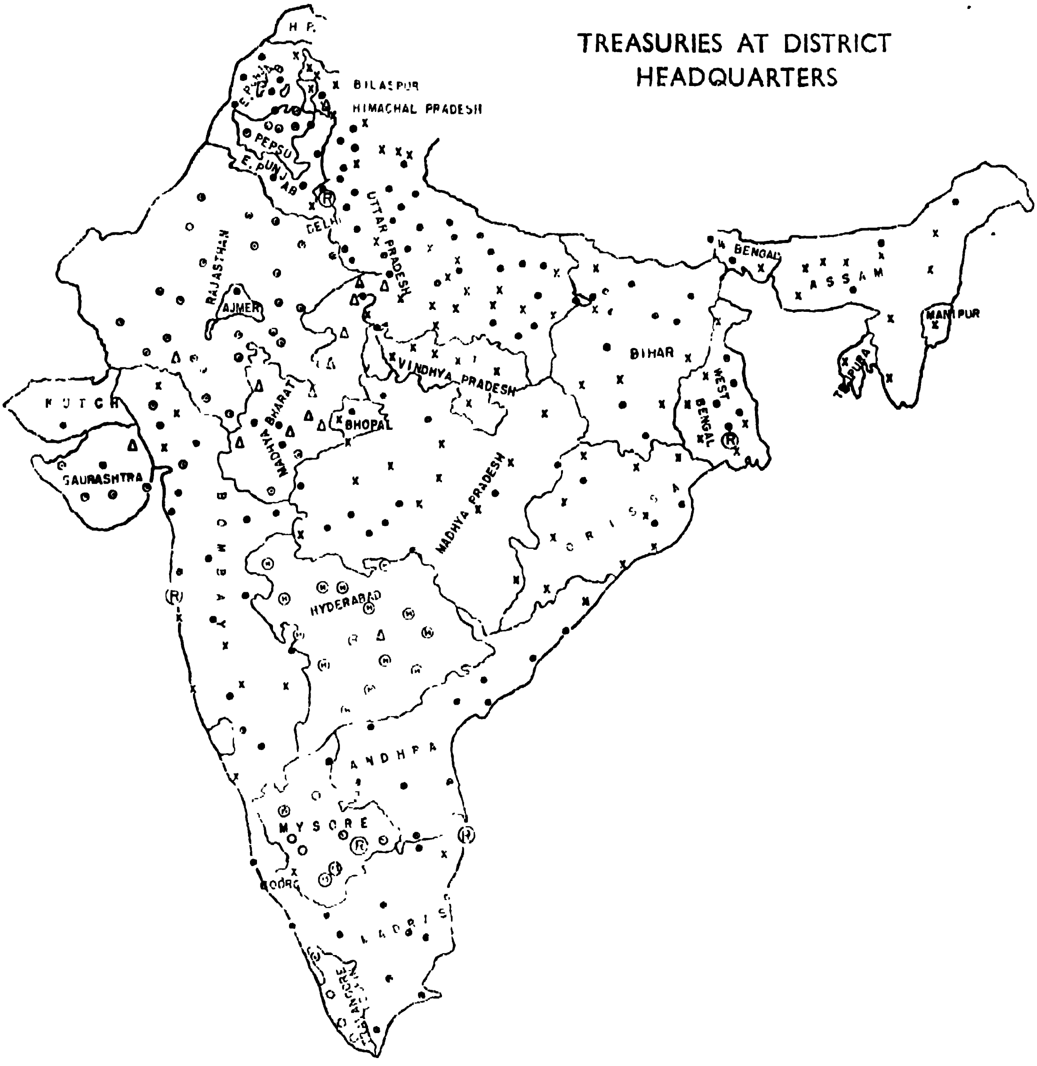
Scope for much larger future extension to rural areas

6. But, even this is not the whole picture, so far as it is concerned with future potentialities. Any expansion of remittance facilities, of which the essence is the taking over by a State-associated bank of currency chests now managed by State Governments, cannot be said to be really effective unless it goes not only to, but beyond, the district headquarters. The following table will show the big gaps to be filled even at the higher of these levels:

	Total number of district headquarters including headquarters of States	Number of district headquarters, including headquarters of States, where there is no branch of either the Imperial Bank or other State-associated banks
Part A States	195	74
Part B States	84	15
Part C States		16
Total	301	105

It will be seen that, even if we take only Part A and Part C States, as many as 90 district headquarter places, out of a total of 217, are each without a branch of the Imperial

TREASURIES AT DISTRICT HEADQUARTERS



I. BANKING TREASURIES			
Managed by Reserve Bank of India	(R)	5	
,, ,, Imperial Bank of India	•	125	
,, ,, Hyderabad State Bank	(H)	15	
,, ,, Bank of Mysore	(M)	3	148
II. NON-BANKING TREASURIES			
(i) which an existing branch of the Imperial Bank or of one of the State-associated banks can take over	⊙	47	
(ii) Other non-banking treasuries			
(a) In Part A and Part C States	x	91	
(b) In Part B States	Δ	15	153
Total District Treasuries			301

Bank of India or one of the other State-associated banks. The position is substantially better in Part B States, where the number of district headquarters without branches is 15 out of a total of 84. If we now consider the sub-treasury centres where there are no branches of either the Imperial Bank or one of the other State-associated banks, the figures are truly staggering:

	Number of sub-treasury centres where there is no branch of either the Imperial Bank or other State-associated banks
Part A States	940
Part B States	516
Part C States	74
Total	1,530

It would be quite impracticable in any foreseeable time to have a branch of one of these banks at each of these sub-treasury centres (there is usually one sub-treasury for each taluka). Let us, therefore, suppose, on a very rough basis and on an average for the whole of India, that five contiguous talukas, and therefore five sub-treasuries which are not far distant from one another, may together be regarded as constituting a 'sub-divisional' unit for the present purposes (rather than in the strict administrative sense). Let us further assume, as seems reasonable, that this sub-divisional unit is the minimum that can be contemplated for the establishment, at a suitable sub-divisional centre, of a '*banking* sub-divisional treasury' to serve the whole area of the unit, and therefore also to furnish the remaining four non-banking treasuries with the much greater remittance and other facilities, including frequent physical transfer of funds, which the currency chest in possession of a relatively nearby branch of a bank (as distinguished from that of Government and its treasury) can certainly help to provide. Even so, the number of sub-divisional centres to which branch extension of the Imperial Bank and other State-associated banks has to take place will be more than 300. These will be in addition to the 105 district headquarter centres, already mentioned, to which such extension has to take place. In the aggregate, therefore, even after the integration of all these banks into one institution working in co-ordination with State policies, and after taking into account the number of non-banking district treasuries which will be more or less automatically converted into banking treasuries upon such integration (these will be 47 as shown in the map facing page 354), there will still be more than 400 centres in all where branches of this institution will have to be established, if minimum remittance and banking facilities are to be effectively provided for the rural sector of India within a period of time that is neither impracticably short nor so unduly long as to imply the avoidable continuance of a set of conditions which is extremely damaging to the rural areas.

If we do not have an integrated institution of the kind proposed, even extension to district centres will be an unconscionably delayed process, let alone the possibility of a definite programme of extension to the sub-divisional level over a reasonably short

period. But here arises the important point that such extension by this institution need not invariably be by the process of establishment of a new branch of its own at every one of these places. One promising possibility which suggests itself is this. There could be legal provision for enabling the integrated institution further to repeat the process of integration by compulsorily amalgamating with itself (as and when Government decides this to be appropriate with reference to a specific case) other banking institutions in the country, where such institutions, individually, possess a small network of branches, in a restricted area, and such area happens to be complementary to that covered by the integrated institution. Such amalgamation may of course cover not more than a relatively small part of the total extension necessary. Even so, it might cover a significant part and help to expedite progress. This possibility of further *ad hoc* amalgamation would naturally not apply to the bigger, or relatively big, banks; it would only apply to the smaller banks operating in limited, but complementary, areas; for as must be made unambiguously clear— the whole object of the programme would be, not the nationalization or near-nationalization of commercial banking in the country, but the provision for, and the increasingly effective evolution of, an integrated, India-wide, commercial banking institution associated with the State and responsive to its policies, especially its policies for the benefit of the rural areas. It is not of course implied that the only State policies here relevant are those concerned with rural banking, co-operative banking and co-operative activity. Wherever it happens that it can be said of a particular reform that it is not only appropriate, but also fundamental and indeed inevitable in relation to one important aspect of national policy, it also usually happens that that reform is immediately seen to be capable of serving a number of other important national purposes as well. We believe that the suggested integration of the Imperial Bank and the State-associated banks is a fundamental reform of this nature. So far as we are concerned, it not only has the fullest justification from the point of view of rural (including co-operative) credit, banking, and finance, but is also one of the three or four most indispensable elements in the composite solution we are formulating.

State partnership

7. But, at this stage, an important difficulty arises out of the financial implications to the institution itself of the suggested programme of expansion into areas which may not, in some cases, hold out the immediate prospect of paying business. Obviously, it would be improper for the State, by legislative compulsion, to bring about such expansion entirely or even largely at the institution's own cost. Secondly, there is the point that such an expansion will mean a great deal of capital outlay Hence there arise two important considerations, viz., (1) that it is desirable that the State should become a partner in the amalgamated institution and provide the necessary additional capital and (2) that it is also desirable that, to the extent reasonably necessary, the State should subsidize the losses incurred on such part of the branch expansion as happens to be initially uneconomic. The concrete suggestion would, therefore, be that the State- i.e., the Central Government and the Reserve Bank—should together put in the additional share capital necessary; and that, from the dividend on that share capital, they should meet the losses (above a prescribed level) incurred by the integrated institution on the programme of expansion. The extent of State participation necessary will, in actual fact, be found to be quite large: we definitely envisage its being not less than 51 per cent. Our detailed recommendations in respect of the reorganization thus necessitated are set out in Chapter 34 on the 'State Bank of India', which is the name we

would propose for the integrated institution. Meanwhile, we would mention another important consideration, namely, that the part of the share capital contributed by the State need not earn the same dividend as the rest of the share capital: in other words, there could be a special class of shares for the State's additional contribution, these shares earning not more than a specified dividend. Besides, it will have to be provided that the shares in question are not transferable outside the Central Government and the Reserve Bank. If this framework is conceded, then it will be seen that it is also implied that the present shareholders, either of the Imperial Bank or of the other State-associated banks, are in no way disturbed in regard to the more important aspects of either ownership or value of their part of the assets of the particular amalgamating bank in which they happen to hold certain shares. Such of them as are shareholders in one of the State-associated banks other than the Imperial Bank can be issued shares of appropriate value in the new institution after taking into account all the relevant considerations, including in particular the value of their part of the assets of the amalgamating State-associated bank concerned.

Training and other matters connected with personnel

8. Other important points will of course arise in the pursuit of this scheme. One of these relates to the training of the personnel of this bigger institution, both existing and newly recruited, in such a manner that they will respond effectively to those administrative policies of the integrated institution which in turn will be aligned to national policies. In particular, and without any diminution of their adherence to the soundest credit techniques, it will be necessary to impart to the personnel of the State Bank of India a helpful and constructive outlook towards co-operative institutions, for example those of marketing and processing.

Certain problems will also arise as regards the pay scales of the different banks, their eventual integration into a new structure of cadre and pay, the transitional provisions meanwhile necessary, the bringing in of all future recruits into the new unified structure, and so on: but all these are matters which, provided a firm initial decision is taken on the principle of the proposal, can without much real difficulty be provided for in the actual implementation of the scheme.

Machinery for implementation

9. In regard to such implementation, we may consider another point, viz., the provision of a machinery in the Reserve Bank for planning and carrying out the scheme of integration in conjunction with a few representatives of the Imperial Bank and the other State-associated banks. The Department of Banking Development which, as mentioned earlier, has already been associated with a number of preliminary measures affecting most of these banks may, after necessary expansion, be put in charge of the task of implementation on behalf of Government and the Reserve Bank. By co-ordination between these two parts of the machinery, a plan can be devised and enforced so as to complete the integration without avoidable delay. Even though the problem is big and in many ways complicated, it is certainly neither bigger nor more complicated than that, for example, of political integration. It ought to be possible, given decision and determination, to carry it out within as short a period, if not indeed a much shorter one.

Operational policies

10. When the new institution comes into being, it ought to be possible, as we have already indicated, to co-ordinate its operational policies with the working of co-operative credit institutions and societies, at any rate with such of these as are at the sub-divisional level and above. We have already referred to the facilities which the integrated bank can promote in matters of currency and remittance, and of the large-scale conversion which can take place of non-banking treasuries into banking treasuries. A further item of potential significance is that the new institution can be of assistance also in the matter of financing of cottage and small-scale industries, where these are specially large and important, but at the same time happen not to be organized on a co-operative basis. Here again, it will have to be remembered that the institution should not be treated as if it were a limb of the State and that what is essentially required is to ensure, both on the part of Government and of the institution, a mutually responsive attitude directed towards the national good, and therefore also towards something which can surely not be inconsistent with it, namely, the good of the institution itself.

CHAPTER 29

FORMULATION OF SOLUTION (IV): OBJECTIONS AND ALTERNATIVES EXAMINED

Imported solutions

It is of the essence of the measures formulated in the last three chapters that they deal with a problem which is conceived as one of development rather than of reorganization. The development envisaged is that of co-operative credit, of co-operative processing, marketing, etc., along with storage and warehousing, and of co-operative banking facilities. In none of these spheres does the main task seem to us to be one of mere reorganization of existing institutions ready at hand and more or less adequate, or even of the establishment of one or more new organizations at the all India or State levels which may then be expected to look after the job without causing too much trouble to too many people. A simple and relatively comfortable solution can hardly be expected, or appropriately offered, if we are anywhere near correct in our reading of the problem as something which goes deep down into the socio-economic structure of rural India and is intimately related to the maladjustment of that structure with the country's economy, administration and institutional development as a whole. The solution must, therefore, take into account many types of existing institutions and many aspects of governmental working and policies. Only the most determined effort on a country-wide basis and at all levels can, in course of time and by an arduous process of change and modification, bring about those minimum conditions in which the residual elements of the problem will begin to assume a more normal aspect. Such an aspect, which is today wholly unrelated to Indian conditions, is nevertheless apt to be misread into them—not only by foreigners, for that is readily understandable—but also by such of those in this country as happen to have derived their ideas on rural credit from a study of the literature pertaining to its organization and operations in the more developed countries of the West. It will be recalled that in an earlier part of this volume (Chapter 10) we referred briefly to the 'school of imported remedies' which would solve the Indian problem of rural credit by adoption of foreign devices such as Supervised Credit from Latin America, Farmers' Home Administration from the United States, Pawnshops from Indonesia and so forth. With State-sponsored and supervised credit we deal in detail in the chapter containing our recommendations on the 'Role of Government and Government Finance' (Chapter 40). It will suffice to say here that no form of organization which seeks, albeit eventually, to deal with every single one of the millions of Indian cultivators, in an attempt to reconstruct the farm business of each on a more satisfactory basis, is likely to meet with even the remotest success in this country or have the slightest relationship to the realities of its financial and administrative resources. The need to approach the cultivator on the basis of a co-operative organization in the village itself is fundamental; there is no really workable alternative to this fundamental requirement in any solution that may be conceived. Since a co-operative organization of the

needed type is non-existent in most villages in India, the main task becomes one of developing it; and of doing so, if possible, in the very process of meeting meanwhile the more urgent demands of agricultural credit and of the economic activities with which it is interrelated. To those, therefore, who advocate the adoption of *ad hoc* features pertaining to credit arrangements in other countries, it would be pertinent to put a series of questions directly arising from the background of Indian conditions delineated in some of the earlier chapters. What (it might be asked) is the cultivable land *per capita* in that country and how much of it, on an average, is cultivated by one family? Are there sharp social and economic differences between the different classes of farmers? Is the ownership of land very unequal? Is there a caste system? How is private trade organized? What are its relations with urban finance and does it link up with certain elements in the village, rather than with others, to the disadvantage of these others? What are the economic and educational levels of the small farmer? Is he able to combine effectively with other small farmers in the co-operative effort of protecting his own interests against the competition of more powerful people within and outside the village? Do large tracts of that country come under the description of 'subsistence economy'? Are supplementary occupations including animal husbandry, cottage industry, etc., adequately available and are there ready markets for the products of such industries? It is only if the answers to these and similar questions indicate a minimum degree of comparability between the conditions obtaining in the two countries, India and the other, that it would be worthwhile considering whether features of organization of rural credit pertaining to another country may be copied by this. These remarks are particularly relevant to the type of recommendations usually made on the basis of European, American, Canadian or Australian experience. The proposal which advocates a system of supervised credit such as is still in the process of trial in various parts of the world, including certain South American countries, loses sight, as we have already mentioned, of various indigenous factors including the vastness of the problem in terms of the extent of rural India and its complexity in terms of the variety of India's rural population. Very often the remedies which are sought to be imported have either not demonstrably succeeded or have even obviously failed in the very country of their origin. The *Credit Agricole* which is held up for imitation from time to time is an example in point. In one of the more recent phases of its variegated history, the activities of the *Credit Agricole* were relatively divorced from co-operatives; they consisted largely of the grant of loans to individuals. As a result of further experience, the *Credit Agricole* has once more been re-constituted; it now deals mainly through co-operative societies. The one State in India, viz., Bihar, which in the past attempted to base its co-operative organization on the Egyptian model, has had none too happy an experience of the type of credit activity with which the *Credit Agricole* was associated. The Government-run pawnshops of Indonesia are another illustration of an institution of another country held up for imitation in this. It is by no means clear that in Indonesia itself these pawnshops have been particularly useful in the context of rural credit. In any case, in India there is no such abundance of pledgeable articles with the cultivator as to justify the assumption that better arrangements for their pawning will make any significant contribution to agricultural credit. That does not of course mean that minor remedies should be ignored, and we elsewhere recommend the provision of credit facilities on the pledge of ornaments, etc., in connexion with central co-operative banks and their branches, as also selected larger-sized primary agricultural credit societies. These facilities, however, can be provided only at places where safe custody is possible (e.g.,

a treasury) and competent shroffs are available for testing and valuing any gold that may be pledged.

The disbursement of credit in kind (fertilizers, implements, etc.) rather than in cash is sometimes suggested and the example of the *Credit Agricole* again cited in regard to the combination of banking and trading. It is certainly desirable, wherever this can be suitably arranged, that the cultivator should get his credit in kind; not only is this feature incorporated in the broad suggestions we have made concerning the National Co-operative Development and Warehousing Board and its auxiliary bodies, but, as a perusal of our detailed recommendations will show, we regard it as an important aspect of the crop loans to be given by co-operative societies that they should to the maximum extent possible be in kind, i.e., in the form of improved seed, fertilizer, etc. These arrangements will in our opinion serve the need much more effectively and with much less danger to the credit system than if state co-operative banks and central co-operative banks start to trade on their own behalf in agricultural commodities, requirements and appliances.

Indigenous remedies

2. Passing on now to suggestions which would come under the description of 'indigenous remedies'—these too, it will be recalled, have been referred to in connexion with the 'schools of thought' of Chapter 10—it may be noted that these relate to more than one category among the different agencies of credit: the moneylender, the commercial bank, the co-operative credit movement, and finally the State, both by itself and in relation to the structure and operations of co-operative credit.

Moneylender

3. In regard to the moneylender, the main proposal mentioned was that he should be incorporated in the co-operative credit system itself as one of its sources of finance. As part of this scheme, he was to be prohibited from lending otherwise than through co-operative societies. We have in Chapter 10 also cited the other view that one of the objectives of reform should be the provision of an institutional alternative to the moneylender and not the conversion into an institution of the moneylender himself. We believe that enough has been said in the intervening chapters in regard to the nature of the moneylender's activities, his significance in rural credit and, above all, his place in the socio-economic picture of the village, to make it clear that any organic association between him and co-operative credit will bring disadvantage instead of benefit to the medium and small cultivator. Briefly, the moneylender is himself part of the problem which has to be solved; while it would be unrealistic to ignore him, so also would it be unrealistic in the extreme to incorporate him as a part of the solution itself.

Commercial banks

4. We have also mentioned the two largely contrasted points of view regarding the potential place of commercial banks in a system of agricultural credit: firstly, that of the school which holds that the commercial banks should be actively encouraged by the State, among other things by a subsidy, to extend their activities to the rural areas; and secondly, that of the Rural Banking Enquiry Committee to the effect that all subsidies for this purpose should be confined to co-operative banks and that the proper role of commercial banks is to finance trade and commerce in agricultural commodities. The record of commercial banks which has since been set out lends no support to the assumption that these institutions

can, if assisted by the State, be of direct and material assistance to the agriculturist. They are not designed to be suppliers of medium-term or long-term credit, agricultural or other; whereas this type of credit is of extreme importance in the context of the enlargement of agricultural production. Moreover, their short-term operations, in so far as the cultivator directly benefits by them, are not only negligible by themselves but are confined to a few instances of relatively large landholders who are able to produce the needed personal security in addition to that of land. We feel, therefore, justified in rejecting commercial banks generally as an agency suitable for inclusion in the integrated scheme of rural credit. This observation does not of course apply to the State-associated banks, including the Imperial Bank of India. In regard to these, the scheme of integration which we have indicated is designed to subserve the purpose of making remittance and credit more readily available in rural areas, as also of linking an important sector of commercial banking with those parts of the co-operative structure which are concerned with credit, namely, marketing and processing. It is not difficult to foresee that objections to this proposal will be forthcoming from different quarters. Two broad lines of reaction may be anticipated : one that the proposal does not go far enough, the other that it goes much too far. For a proper appreciation of the proposal we would refer to the further elaboration of it contained in Chapter 34. Here we would only say that the two main suggestions we have made, which are integration and major State partnership, together constitute what in our view is the minimum extent of reorganization necessary in the particular context with which we are concerned, namely, the development of rural banking facilities, both effectively and on a country-wide scale, and the co-ordination of such development with that of co-operative credit.

The co-operative movement

5. In regard to Co-operation we have elsewhere referred to certain broad differences of opinion which exist among co-operators themselves on issues such as single-purpose versus multi-purpose or the permissible degree of State participation in co-operative activity and organization. The programme suggested in the last three chapters may be considered in relation to some of these issues.

The scheme formulated embodies, among other things, our belief that the co-operative organization as a whole should undoubtedly be multi-purpose. For very good reasons, which it is unnecessary to repeat, there is no possibility of the co-operative system being effective even in the limited context of credit, if it restricts itself to that sphere alone. But it does not by any means follow that the individual unit of organization—each co-operative society, for example—should aim at varied multi-purpose activity, far less at wider rehabilitation. With the degree of participation of the State which we have recommended, and largely on account of the implications of that participation in the form of larger finance and better technical personnel, we have no doubt that even individual societies—especially the larger-sized ones—will be able to take up effectively, and not merely on paper, a greater variety of activity than is generally the case with co-operative societies today. Even so, there is neither need nor justification for the primary credit society, in the structure we envisage, to take upon itself the performance of any highly specialized functions or to embark on business undertakings such as marketing and processing which involve a definite element of financial risk. In an integrated co-operative structure, these functions will be discharged by the appropriate type of society, and the needed

co-ordination between credit on the one hand and marketing and processing on the other will be effected at the appropriate levels and places such as the marketing centre, the taluka and sub-divisional levels and the district headquarters of the central co-operative bank. Financial risk unconnected with its ordinary credit functions is obviously something to be strictly avoided by the primary society. Further, only such additional functions should be assumed by a primary society as it is in fact capable of discharging knowledgeably, efficiently and in fulfilment of the felt needs of its members. The distribution, *as agent*, of seeds, fertilizers, agricultural implements, kerosene, etc., is an instance in point. In the framework of a co-ordinated organization such as is outlined in the last three chapters, there ceases to be any real conflict between the single-purpose and multi-purpose ideas. The controversy derives its real significance from the fact that different schools of opinion differently considered that the momentum from within the village needed for the future development of the co-operative credit organization lay in the simple and readily manageable single-purpose society on the one hand or in the more complex and potentially more useful multi-purpose society on the other. The record of the co-operative agency and, in particular, the details of the working of individual societies illustrated in Chapter 4 indicate that neither of these beliefs was well-founded. Undoubtedly, the multi-purpose idea has great possibilities in terms of an individual society which happens to be really able to put it into practice. But it was a mistake to have supposed that a mere extension of the idea to a large number of societies would make all of them automatically successful. In other words, it is as a formula for co-operative regeneration that the multi-purpose form of organization has on the whole failed. It no more provided co-operative credit with the needed dynamic of progress than had the single-purpose form through its distinctive merit of simplicity. If, therefore, the question is asked: "What form of co-operative society should the village start with, single-purpose or multi-purpose? Which of them, as the initial step, holds better promise of success in terms of rapid, effective, and large-scale expansion of the co-operative credit movement?", it may not be far wrong to answer, "If re-organization is to stop there, neither," or to add, "Have whichever type is suitable for the particular village, either single-purpose credit society or one of the simpler forms of multi-purpose society, not in the hope that Co-operation will thereby be automatically nurtured, but in order that a certain amount of credit at least may be available and in addition, if possible, one or more useful and concrete services rendered to its members by the society." The multi-purpose form is certainly more useful where it succeeds; but there are obvious dangers if the form itself, without the reality, is imposed on a series of villages, as part of some large-scale programme of expansion which does not take account of the relevant local conditions and their variation from village to village. One set of dangers arises from the attitude of the subordinate co-operative official who is more in touch with realities than is usually the case with those far above who formulate impressive policies for rapid implementation. The official who sets out to sponsor a multi-purpose organization at the village level may (though this is rare) really mean to do what he has been asked to do; in that case the villager, unable to assimilate the multi-purpose idea, may develop an allergy to Co-operation as a whole. Or, alternatively, the official may show quite plainly by his actions or by his indifference that he does not mean what he says and does not believe in what he has been asked to do; in that case, the villager tends to identify Co-operation with the particular brand supplied to him and develop a suspicion towards Co-operation itself.

Transferring the issue of 'single-purpose versus multi-purpose' from the individual society to the wider framework of organization within which place is found for both co-operative credit and co-operative economic activity (such as processing and marketing), we would say of particular localities, and not of each village: "Examine the existing conditions carefully with reference to all relevant factors: the character of the local economy, the social set-up, the leadership available and the private interests to be contended against. Then, according as may be appropriate and with previous provision for trained personnel, begin not only with credit but also, at the appropriate levels, with co-operative processing, for example, or co-operative marketing or with even greater deliberation, co-operative farming. But, in each case, begin with the maximum necessary Government support and aid, not to be withdrawn except gradually and only as and when at each stage success seems assured. Here at least, for the cultivator, is something connected with the physical production and sale of his own crops: something, therefore, which he needs and understands and in which, in a positive manner, he can participate."

State-partnered Co-operation

6. We have at different places in this Report elaborated the idea of State-partnered Co-operation. In this chapter, which deals with possible objections to the scheme formulated, we need only emphasize that the more orthodox model of co-operative finance has in fact fallen far short of success in many States, if success is measured from the standpoint of social objective and not that of administrative efficiency displayed in the pursuit of more limited ends. It has been seen, for example, that central banks in Madras which are among the most efficient in this country have in practice not provided credit in anything like the same proportion to the total borrowings of the producers as has the Bombay system after the reorganization of the structure and its operations on the basis of State policies and State participation. This provides part of the justification for our proposing that the share capital of apex banks (and through them of central banks) should be composed on the basis of 51 per cent State participation. Another point which may be mentioned is the difficulty which is experienced in some States, including many of those which are now co-operatively undeveloped, of getting together at the district level an elected board for the central co-operative bank which has at heart the interests of the cultivator and is prepared to implement purposive credit policies in the context of larger production. There are several States in which, at this level, the only leadership available is either a heterogeneous one which breaks down under the stress of internal conflict within the board, or a more compact one which derives its homogeneity from a shared class interest which then reflects itself in the loan operations of the particular bank. If the orthodox model of co-operative credit was followed in these States, there might, with the promotion of efficiency, undoubtedly be reached a stage when adequate facilities for specific classes of agriculturists—the relatively better-placed ones or those belonging to particular castes—would be more or less efficiently organized, but it would be found impracticable to go beyond that stage and use the same machinery for channelling credit to the class of agricultural producers as a whole.

If the position may be graphically put, without reference to particular States, the orthodox co-operator, arguing from a static position, says in effect: "I should not be compelled to provide credit to a wider section of cultivators. The State shall not dictate

to me whom I should finance." He will perhaps add: "The non-members are also, by and large, the non-creditworthy; for co-operatives to finance them would be against all principles of sound co-operative business and all criteria of creditworthiness. To finance the non-creditworthy may be the function of the State, but it is certainly not that of Co-operation." The implication of this in terms of the medium and small cultivator would be that, while on the one hand we regard ourselves as worthy of having more than 40 per cent (in terms of value) of the total foodgrain production in the country being met by one class of producers—themselves about 70 per cent of the total number of agricultural producers—we decide on the other hand to tell that class of producers that it is unworthy of having its credit needs met through the co-operative organization.

Turning now to the unorthodox co-operator already accustomed to some degree of State participation, we may imagine him arguing from a dynamic position and saying in effect: "Where will all this end? Am I to put myself to a lot of trouble and possibly imperil my funds by being compelled to finance an ever-widening group of cultivators? I have already allowed myself to be associated with the State in a modest programme of this kind, but if this is going to be greatly expanded, either I must revert to the original position or the State must take up a much larger part of the finance and the risk than it has so far."

Our scheme of State participation is based on a rejection of the idea that co-operative credit is a closed enclave which has no organic connexion with planning; it is also based on a recognition of the fact that State participation in Co-operation cannot stop short at an intermediate stage, but must be taken to its logical conclusion which is that of providing for the cultivator a strong and suitable superstructure such as can be effectively operated for his benefit through the financial, administrative and technical participation of the State.

Agricultural Credit Corporations

7. The inadequacy of co-operative credit as a whole in India, and its uneven development in different parts of the country have led to proposals for the establishment of Agricultural Credit Corporations. As indicated in Chapter 10, there are two distinct sets of proposals to be considered in this connexion. One of them figures among the more important recommendations of the Agricultural Finance Sub-Committee. The type of Agricultural Credit Corporation there proposed is one to be set up by each State for itself. This needs to be distinguished from the other solution, which has emanated from different quarters in the recent past, concerning the establishment of an all-India credit institution variously designated as Agricultural Credit Corporation, Agricultural Development Finance Corporation and so forth. The latter, as we have elsewhere pointed out, is advocated on the further ground that it is necessary to create at the all-India level a sufficiently powerful body which can eventually take over from the Reserve Bank a large part of such of the responsibilities as it has taken on itself for the institutional development of agricultural credit in different parts of the country.

State Corporations

8. The main objection to State Agricultural Credit Corporations has come from co-operators under the apprehension that institutions of this type might stand in the way of the extension of the co-operative form of credit where this was still undeveloped. There has also been the

further apprehension that it would be difficult to co-ordinate the working of such institutions with that of the co-operative credit organizations, whether developed or undeveloped. The Government of Bombay, it will be recalled, on consideration of an issue which was mooted by co-operators themselves and in consultation with them, came to a decision which had the full acceptance of the co-operative banks of Bombay, viz., so to alter the existing system of co-operative finance, in positive association with the State, as to enable the reorganized institution to assume full responsibility, eventually, for the supply of finance to all creditworthy agriculturists in the State. In States which had not yet set up state co-operative banks, the recommendation of the Agricultural Finance Sub-Committee would ordinarily have implied the establishment of a State Agricultural Credit Corporation; in certain other States, where state co-operative banks existed but were weak and on the whole ineffective, the proposals of the Committee would have meant that these apex institutions would have to be either converted into agricultural credit corporations or be supplemented by such corporations, the latter alternative giving rise to somewhat complicated problems of co-ordination, especially in those areas in which both the apex co-operative bank and the credit corporation operated simultaneously.

Some of these objections to the proposal, together with the consideration that the efforts and resources required for the establishment of state agricultural credit corporations might well be expended on the creation of state co-operative banks, had earlier weighed with the Co-operative Planning Committee in its decision to reject the proposals of the Agricultural Finance Sub-Committee. It is unnecessary to dwell on this controversy at any length, since, in an important respect, it is already out of date. One of the lines of approach of the Agricultural Finance Sub-Committee, as we have stated, may be regarded as having led, in conjunction with the reaction to it of Bombay co-operators, to the reorganization of the apex bank of Bombay on the basis of State partnership. On this same model is based a further development which we have elsewhere mentioned. That development consists of the establishment of state co-operative banks by a number of States which hitherto have not possessed these institutions, and in the reorganization of the existing state co-operative banks by certain other States, in either case on the basis of State partnership in share capital and State association with structure and operations generally. Our recommendations on this point are not only consistent with, but in essence incorporate and further extend, this important feature of recent reorganization. It is our belief that reorganization on this basis not only offers the prospects of a strong agricultural credit organization in each State, which was the main aim of the Agricultural Finance Sub-Committee, but also avoids two major defects inseparable from an independent Agricultural Credit Corporation for any particular State, viz., the difficulty of co-ordinating such a structure with that of co-operative credit and the further and even more formidable difficulty of ensuring that the operations of the Corporation do not retard the development of co-operative credit at the rural base and at higher levels.

All-India corporation

9. We next turn to the alternative of an all-India corporation. To the extent that this suggestion is based on the consideration that the Reserve Bank needs to be relieved eventually of some of its responsibilities in the sphere of agricultural credit, we invite reference to a later part of this Report (Chapter 33) where the relevant issues are discussed in some detail.

Briefly, our conclusion on this point is that the whole problem of agricultural credit in India is misconceived by those who think that some new institution of credit at the all-India 'apex' level will make any appreciable contribution to its solution. The problem, as more than once stressed in these pages, is one of development; that is, of careful and arduous fostering of the conditions in which institutional credit can effectively reach the cultivator, and definitely not that of mere reorganization in the ordinary sense of that term. The process of development on an all-India scale presupposes the possession of the requisite resources: not only of finance, but also and more importantly of personnel, experience, and a wide sphere of influence. If the Reserve Bank, whose association with the State Governments has been fruitful in developing and strengthening the short-term credit structure (largely on account of its ability to give adequate short-term accommodation once the structure is reorganized according to its suggestions), continues in future to exercise the function of granting such accommodation to different credit institutions all over the country—and the Central Bank of the country cannot well be divested of this crucial function—it is difficult to envisage a new institution, not similarly empowered, collaborating as effectively with the State Governments as the Reserve Bank can, and now does, in the different measures necessary for bringing about such development. Our proposals, as distinguished from the suggested establishment of an all-India corporation, are based on the extension of the relevant functions now exercised by the Reserve Bank in regard to short-term agricultural credit into the correlated spheres of medium-term and long-term credit. The Reserve Bank has, together with many of the needed statutory powers, also much of the needed experience, influence and personnel; and theoretical objections based on a conception of central banking derived from the institutional practices of the highly industrialized countries of the West seem to us to have little or no validity in Indian conditions. We are not against the establishment of new apex institutions at the all-India level, if no existing institution can serve the purpose, provided the proposed apex is likely to be both useful and effective. We have ourselves indicated in an earlier chapter the desirability of establishing such an institution in the form of an all-India warehousing corporation operating under a National Co-operative Development and Warehousing Board. But the belief, in this and in other contexts—a proposal to establish an All-India Co-operative Marketing Board readily comes to mind—that if only an all-India apex is created by law and provided with finance, then everything else will be taken care of by the institution thus established, seems to us to need more searching analysis than is usually accorded to it. An apex does not stand by itself; it has to have a body and a base. If it does not have these, then they must be created; and the establishment of the apex itself must, if possible, help in their creation. Attention must, therefore, be focussed on how all this is going to happen. It surely cannot be assumed that if the apex comes (by legislation), the base cannot be far behind. Moreover, if the apex is an all-India credit corporation and the base a multiplicity of rural credit societies in thousands of villages, it has to be asked in what manner the one is going to be effectively related to the other. Largely reduced to working through its own branches and lacking organic connexion with the co-operative credit structure, there is grave danger that the corporation will not be able to prevent the bulk of its accommodation gravitating to the more powerful and influential borrowers. Some such fear is apparently shared by the Pakistan Agricultural Inquiry Committee which in its Report of 1951-2 says of the Agricultural Development Finance Corporation of that country that " so far as direct aid is concerned, the Corporation's resources in actual practice

are likely to be mainly used by big zamindars. The needs of this class are even now perhaps adequately met by existing sources of credit, including the commercial bank; the benefits of the Corporation to the small agriculturists would accrue only through subsidiary organizations like the co-operatives and, therefore, much would depend on the efficiency of the latter which are known to be not doing too well." The apprehension that a corporation of this kind would in practice be of assistance only to the big landlords has been borne out by experience of more than one economically undeveloped country. Speaking of such countries, the Department of Economic Affairs of the United Nations says, in a paper to which we have referred before, that some of them "have instituted agricultural credit corporations, usually sponsored and financed in part, and often guaranteed by the Government. Many of these public credit institutions have had only a very qualified success, owing in part to their inability to achieve or maintain sufficiently close contact with the small farmer or tenant cultivator. 'Few banks of this kind can establish sufficient local branches to ensure that the manager maintains that close day-to-day contact with the individual farmer which is essential to success. It is easy enough to establish and maintain close relations with great landlords, the owners of large plantations and ranches and similar important borrowers, but usually these classes of borrowers have access to ordinary commercial facilities and are not those who are most dependent on the services of the bank.' As long as public credit institutions do not reach the level of the small farmer and tenant, the supply of cheap credit which they provide will only serve to reinforce the usurious practices of the landlords."[1]

Co-ordinated scheme of development

10. The observations just quoted are not inapplicable to Indian conditions; they serve to emphasize our point that the problem is one of development of co-operative organization at all levels and especially at the base, and not one of financial and administrative reorganization more or less confined to the top. A programme of development so conceived has to be many-sided even as it has to be wide-based. That is why, in our view of what the lines of solution ought to be, no one institution, new or old, apex, intermediate or primary, can be solely or mainly relied upon for the initiation of the process of development. In the scheme put forward by us, the Central Government and in particular the State Governments and the entire co-operative structure for which they are primarily responsible have their respective functions in each particular sphere of development, and these functions are co-ordinated (1) with the Reserve Bank of India, so far as the development of co-operative credit is concerned, (2) with the National Co-operative Development and Warehousing Board and its auxiliaries for the development of storage, warehousing and co-operative economic activity generally (especially processing and marketing), (3) with the proposed State Bank of India, as well as with the Reserve Bank, for the creation of the needed facilities for rural and co-operative banking and, lastly, (4) with the Central Committee for Co-operative Training in regard to the organization of the training of the large and varied personnel required.

[1] *Selected Readings in Agricultural Credit*, 1952, p. 71.

VIII. SOLUTION: INTEGRATED SCHEME OF RURAL CREDIT

CHAPTER 30

INTEGRATED SCHEME (I): BASIC CONSIDERATIONS

Context

In terms of the number of people who live in villages on the one hand and in towns and cities on the other, India is very largely rural India; and in terms of the means of livelihood pursued, rural India is very largely the cultivator. Agriculture is far and away the largest industry of the country; this is so not only because of the millions engaged in it or of the much larger number dependent on it; agriculture, and the many industrial and other activities based on agriculture, contribute nearly as much to the national wealth as all the remaining sources and occupations put together. A large increase in agricultural production has been planned and initiated; and the needs of a fast-growing population are likely to call for even bigger programmes of agricultural development than those now envisaged. Large holdings are relatively few and are likely to be fewer as a result of the land policies which Governments have adopted in pursuit of social ends. If only in the numerical aspect, therefore, the medium and small cultivator, who from that point of view is already important, will become increasingly important as a person whose needs have to be studied and borne in mind in the formulation of policies of agricultural credit and agricultural development. Medium and small holdings now account for about two-fifths of the agricultural produce of the country ; but, as large holdings give place to the not so large, more and more will the latter be significant even in terms of their share in the total production. With little new land left to be brought under cultivation, the increased production must for the greater part take place on holdings already cultivated; the modes of increase, in other words, must in the main be in the nature of more intensive utilization of land; they have to consist for example, of better seed, more water, more fertilizer, better implements and better techniques of cultivation. A start has been made, but a great many of these improvements have yet to be effected in a great many areas. Much cost will be involved as well as considerable effort. Part of the cost, as in irrigation, will be borne by the State; for the rest, most cultivators will have to be helped with credit to meet the initial and recurring outlays needed for improvement of land and increase of production. All this will be in addition to what the cultivator, at the present level of his productive operations, needs by way of short, medium and long-term loans. Since by and large he is unable to put by, after each harvest, what he needs till the next for farm business and family maintenance, his normal credit requirements during the year include both the elements of 'production' and 'consumption'. He also borrows and spends, sometimes unduly, on marriages, funerals and the like. The smaller the holding he cultivates, the more is his dependence on other forms of earning; the small cultivator, for example, has often to resort to carting or agricultural labour. For the cultivator generally—whether his farming economy be small or medium or, in relative terms, even large—there is great need of enlargement of the scope of his subsidiary occupations; these may, for instance, be either agro-industrial like the processing of paddy,

sugar-cane, cotton and groundnut, or of a 'mixed farming' type like dairying and the rearing of livestock in conjunction with the cultivation of land. Finally, of great importance in the economic life of the villager, whether or not he is a cultivator, is the non-farming sector of production represented by cottage industries. In all these contexts, many of them inter-connected, arises the need for rural credit. We are more especially concerned with that form of it which is agricultural credit.

Present position

2. Today, the agricultural credit that is supplied falls short of the right quantity, is not of the right type, does not serve the right purpose, and, by the criterion of need (not overlooking the criterion of creditworthiness), often fails to go to the right people. The moneylender in most places, including the low economy or subsistence areas, and both he and the trader in the cash crop or more commercialized regions, provide the cultivator with all but a small proportion of the total credit actually obtained by him. Somewhere near 3 per cent of the total requirement is met by co-operatives, and a like proportion by Governments. Commercial banks hardly come into the picture. The moneylender takes no account of purpose and charges as high a rate of interest as he can; the trader lends or advances for production but pays as low a price as he can. The small fraction of credit supplied by co-operatives tends to follow ownership of land; it could be related to produce, if produce were channelled through co-operatives; but co-operative marketing is weak, undeveloped and in quantitative terms insignificant. Co-operative credit is more developed, but, even so, much the larger part of the cultivating population is still outside its ambit. The loans which the Governments advance are, like co-operative loans, found on investigation to gravitate to the big and the large cultivators in preference to the medium and the small. Neither co-operatives nor Governments have adequate supervisory arrangements to ensure that such little accommodation as they give is utilized for productive purposes.

Failure of co-operative credit

3. For several important reasons, borne out by the experience not only of India but of many other economically undeveloped countries, it may be regarded as axiomatic that at the rural base, that is to say in the village itself, no form of credit organization will be suitable except the co-operative society. Where larger production is the aim, the moneylender's credit is obviously unsuitable. The alternative is institutional credit, private or other; but this tends more than ever to confine itself to the bigger cultivators if it is not channelled through some form of co-operative association of the borrowers. If, from this statement of a fundamental requirement, we turn to the record of co-operative credit in India, we notice individual instances of success coexisting with substantial failure in quantitative terms. The problem of future policy may therefore be thus summed up in the context of credit: Co-operation has failed, but Co-operation must succeed. The foremost objective of policy then becomes the positive and deliberate creation of conditions in which co-operative credit will have a reasonable chance of success. This makes it important to discover the main causes of its failure.

Socio-economic background

4. Many reasons are usually given, but not always in full realization of the extent and nature of the failure of co-operative credit in India. Functional, structural and administrative defects, dearth of suitable personnel, lack of training, a background of illiteracy, the grave and chronic

deficiency in roads, storage and other vital economic requirements—all these are relevant as part of the explanation. The main causes are much deeper. They are largely socio-economic in character and are relatable to certain fundamental weaknesses which have developed in the rural structure. Some of the factors making for weakness, such as caste, have always been there; some of the weaknesses are inherent in most agricultural economies, especially those which consist of small units of operation together covering a vast area; but the features most significant in this context are those which have emerged from the combined impact of commercial colonialism, industrialization and urbanization on these pre-existing conditions. As a result of all the three has been imposed for nearly one hundred years, a powerful, urban and highly monetized economy on a rural structure which had economically been self-sufficient and which socially continued to be based on caste. In its origin, the monetized economy was associated with colonial commerce; the latter was supported by colonial rule and administration; with such commerce and administration were associated big financial institutions such as banks and trading houses. In its development, this monetized economy derived strength and support from all these and in particular from the financial institutions which indeed were its accompaniment. The colonial rule underwent transformations: it became more and more beneficent in its objectives as well as more and more democratic in its character, till finally it gave place to full independence and democracy. However, the financial institutions associated with it or growing under its auspices have in character and functioning remained substantially unaltered. In their effect on the rural economy, in their relations to it and in their attitudes towards its real interests, there has been little change of any significance in the powerful institutions of industry, trade and finance.

Internal and external aspects of rural economy

5. It is against this background that we have to consider the weakness of the rural economy. It may be regarded as of two kinds: (1) internal to the rural structure and (2) external to it. The internal weakness, in one of its main aspects, is relatable to those conditions in which alone it is possible for optimum wealth to be produced in rural areas. The factors here are social, economic, technological, educational, etc. They pertain to the size of the cultivating unit, the availability of irrigation and other facilities, the existence and scope of subsidiary occupations, the methods of cultivation pursued, the cultivator's attitudes towards production, his habits of thrift or wastefulness and the extent to which guidance is given him or action taken for his benefit in respect of all these. The external aspect is related to the maladjustment between the rural structure and the forces of the urban economy. This maladjustment is strikingly obvious in relation to that part of the urban economy which is expressed in the financial mechanism to which we have referred. The components of this mechanism are many. There are the commercial banks and the whole superstructure of banking; the insurance companies and the investment trusts; the indigenous banker and the moneylender, whose operations, even if only indirectly and at some points, are nevertheless significantly geared to the commercial and central banking mechanism. There is also, in the same sector, the whole organization of urban trade from the big trading firms and the commodity exchanges to the middlemen and the brokers, the private traders and the private markets, the latter both 'regulated' and unregulated. This trading organization is also linked to the commercial and central banking mechanism. By and large, neither the banking system nor the trading organization operates in a way which is in the interests of the rural economy; and together they are much more powerful

than any factor or combination of factors that can be internally marshalled from the rural economy itself.

Rural weakness and urban strength

6. The two aspects mentioned above are interrelated. The internal weakness, partly inherent in any agricultural economy but partly of a type which is characteristic of Indian conditions, prevents the cultivator from making use of the external mechanism of banking or of deriving his due share of benefit from that of trading. The external mechanism itself, partly on account of its historical development and inherited attitudes, does not reach down to any except the top layer of the rural economy. It finds—it cannot well do otherwise—that the rural economy is not so organized as to be a good business proposition for urban financial institutions. Meanwhile, through its very powerfulness it distorts those processes in the rural economy which stand for internal strength and cohesion. This distortion is caused partly by the very existence of a strong force alongside of a weak one and partly by the interpenetration of the former into the area of the latter through moneylenders, traders, etc. This interpenetration takes the form of the existence in the village itself and within the directorates and managements of rural associations and institutions, such as co-operative societies or village *panchayats*, of a strong element of leadership and influence which, in its interests and attitudes, is attuned not to the other and weaker classes of the rural population, but to the urban forces from which it derives its strength. This element is in the forefront whether the village institution is a body nominated from above or elected from below. It consists of those who have certain types of advantage such as ownership of a big holding, or possession of relatively large resources together with the technique of lending them in the form of cash, or a certain degree of education, even if sometimes no more than such minimum knowledge of the language of administration as enables communication with the outside world of financial power and official influence. Any one of these and similar advantages—and quite often more than one exist in combination—gives the possessor a status in the village and a power for good or evil far out of proportion to the nature of the possession itself. This is almost wholly explained by the access which the possessor thereby obtains to the urban sector in which all the real power and influence and finance reside. Much attention has rightly been drawn by writers, publicists and committees to the Indian villager's social and educational backwardness, to his illiteracy on the one hand and to his caste-riddenness on the other. These are there and these have always been grave disadvantages. But the point is that they have acquired a new dimension of disadvantage in a context in which the enhanced power of a few operates in conjunction with the undiminished loyalties of caste. The total problem thus created is one which, today, the internal strength of the village is powerless to solve. This is so largely because of the totally disproportionate character of the other strength pitched against it: a strength channelled down from the sources of power and finance.

Explanation of failure of co-operative credit

7. The picture which thus emerges, with the internal and external elements pieced together, is one in which the failure of co-operative credit falls into place, especially that important aspect of the failure which consists in the relative neglect of the credit needs of the medium and the small cultivator and in the reluctance to enlarge membership or take on further responsibilities. At the same time, the utter inadequacy of the total operation becomes for its part explicable in the light of the unequal competition offered by the external

mechanism of banking and, linked with it, the often unfair opposition—in addition to the wholly unequal competition—presented by the external organization of trade. Apart from the competition and opposition are the ingrained, if impersonal, attitudes which characterize the larger part of the urban sector, administrative, financial or banking, in its relations with the rural area and the rural population. Lack of understanding and lack of sympathy, let alone a positive desire to help, are further and potent factors to be taken into account in explanation of the poverty of assistance which the rural institutions of credit have derived from the urban sources of finance.

Wider context of rural credit

8. Rural credit in India, therefore, is part of the larger and living context of India itself. It can neither be understood nor hoped to be solved except as part of such context. As a felt difficulty its locale is the village, but both cause and remedy have to be sought in other places besides the village; in this sense it ceases to be merely 'rural'. As a felt need its form may be borrowing, but the need itself is an economic one and therefore part of a larger economic activity and purpose; in this sense it ceases to be a merely technical matter of 'credit'. Nor is that all. The context has to be further widened beyond the conventional limits of rural demography and rural economics. For, the activity and purpose which give rise to the need for credit, as well as the manner in which the need itself is satisfied, are conditioned by social background, social structure and social attitudes; and, though here again the immediate locale of all three is the village, the background is part of the larger socio-economic background of the country and of the historical factors underlying it; the structure relates itself to the organization of the country's Government and of its more important financial and other institutions; and the attitudes derive strength or weakness according to the degree of their attunement to the more important social, economic and political groups who share between themselves all real power in the country. It therefore becomes relevant to note, as we have noted, that power and importance in India today reside predominantly in the towns and cities and capitals of the country; so that a search for remedies to the many problems of rural credit must necessarily lead one to reflect, as here briefly attempted, on urban institutions, urban groups and urban attitudes as they affect rural well-being. In this use of the words 'urban' and 'rural', in seeming contra-distinction, it is not implied that there is any fundamental or necessary disharmony between urban and rural interests; the terms are merely descriptive of existing facts which can and must be altered in the interests of the country as a whole. Nor should it be forgotten that, just as a certain number of 'agriculturists' reside in urban areas, so does a section of what we have called urban attitudes reside in various classes of men whose habitat is the village.

Need for rural-minded credit

9. We have said earlier in this chapter that the first objective of policy should be to create conditions in which Co-operation will succeed. In the light of the further analysis this has been seen to imply the twofold task of rectifying the internal weakness and the external maladjustment of the rural structure. In this sense, the problem of rural credit becomes inseparable from that of the reorganization of the socio-economic structure of the Indian village itself; in other words, paradoxical as it may sound, the problem of rural credit in India is not primarily one of rural credit. Rather, it may be said to be one of rural-minded credit.

10. The prescriptions for the reorganization of co-operative credit hitherto made or tried may be described as attempts to rectify the internal weaknesses of the credit structure without taking into account the weaknesses of the rural structure as a whole, much less its maladjustment to the external mechanism of urban trade and finance. Most reforms of the co-operative movement, attempted or effected, have therefore been in the nature of inevitably futile attempts to combine the weak against the strong in conditions in which the weak have had no chance. Thus, effort has been concentrated on thrift, better living, multi-purpose, etc., without the prior preparation needed for correcting the maladjustment between the two economies. The arena was cleared for a fight between the weak and the strong with the rules of the game heavily weighted in favour of the strong. The first task is to rectify this position. In other words, conditions must first be created in which Co-operation can properly function. No criticism of that functioning is likely to be useful or fundamental unless those conditions are first created. Until then, all endeavour at reorganization will imply the expectation that the socio-economic structure internal to the rural sector will itself create those conditions by co-operative combination, good business methods, etc. That, however, is inherently impossible. No amount of small, administrative, functional or other changes can render Co-operation able significantly to help itself. At the most, these changes will effect some small diminution of its very great inability to help itself. The multi-purpose idea, for example, whether as at present, or extended in scope into rehabilitation, cannot, except in the context of a larger and more integrated organization, help to bring about the needed results. Any other expectation would imply the assumption that if Co-operation has failed in small things, it is only because it has not attempted bigger things. 'Better living' can only come as a later, not earlier, objective. Indian agriculture has often been distinguished from the mode of business which it is in many Western countries and, in contrast, called 'a way of living'. The problem in this respect is to convert it first into 'a way of making a living' and then into 'a way of achieving a better living'. Or, to consider credit in conjunction with marketing, processing and allied economic activities, it is clear that all these must go together. Bigger units are necessary. Optimum conditions must be created. These involve (1) finance, (2) flexibility of finance and (3) business technique. Above all, in these and other respects, the strength created must be such as to be effective against the competition and opposition of private trade and other private interests. None of these can be had from the internal resources of the co-operative structure. The choice before Co-operation is, therefore, indefinitely to continue in various degrees to be unable to help itself or to be helped in order that eventually it may not only help itself but need no other outside help.

Creation of conditions of success

11. That initial help can only come from the State if it is to be of the requisite magnitude and of a type which will enable the co-operative organization to withstand the pressure of opposition of vested interests. The manner of the help, therefore, cannot be merely administrative. The State's way of help hitherto has been to over-administer and under-finance. But that is no remedy for a total problem which may now be seen to be one, not of rural-minded credit alone, but of rural-minded credit in conjunction with rural-minded development of agriculture and rural-minded organization of marketing, processing, etc. The total programme needed may be described as one of rural reorientation of the operative forces of the country's administrative and financial organization. It implies a combination of rural conscience,

State partnership

rural will and rural direction. Such a combination strong enough to be an overriding factor in the situation has to come from Government and the more powerful institutions of Government. In Co-operation we have what may be described as a combination of the weak at the bottom. The State is or ought to be a combination *for* the weak at the top. An effective programme is possible only if the State at one end joins hands with co-operatives at the other in an effort to bring about the rural-mindedness that is needed. The process of collaboration hitherto may be described not so much as the joining of hands as the occasional and ceremonial shaking of hands.

Thus, through one important part of our recommendations runs the theme, not only of State guidance and State aid, but also of State partnership with co-operatives in credit, processing, marketing, etc. Since the operations of the banking mechanism as a whole have an important bearing on the first of these aspects, viz., co-operative credit, and the institutional development of storage and warehousing is organically connected with the second, viz., processing, marketing, etc., two other basic considerations which underlie different but connected parts of the recommendations are the need for positive State association with a defined sector of commercial banking and the need for State initiative and State participation in the creation of suitable institutional means for the promotion of storage and warehousing on an all-India scale. For each of these purposes, the training of proper personnel is necessary. Another, and important, aspect of the solution will therefore have to be a comprehensive all-India programme for the training of appropriate personnel at all levels.

These, then, are the basic considerations which underlie the main features of the integrated scheme as also the individual recommendations, both principal and detailed, which we make in connexion with that scheme. The next chapter deals with the main features. The one following it contains the principal recommendations.

CHAPTER 31

INTEGRATED SCHEME (II): MAIN FEATURES

IN this chapter are set out very briefly (1) the main objects, concepts and methods underlying the proposed reorganization and development, (2) the main lines of reorganization and development, (3) the main agencies, existing or new, for carrying out reorganization and promoting development, and (4) the main funds to be constituted for the orderly financing of planned reorganization and development.

Principles of reorganization

2. *Main objects, concepts and methods of reorganization and development.* These may be described in the following terms:

(i) State partnership, including financial partnership, in co-operative *rural credit* in order that such credit may not only be expanded and strengthened, but expanded and strengthened for the positive purpose of production and for the positive benefit of the rural producer.

(ii) State partnership, including financial partnership, for the benefit of the rural producer, in a programme for the organization of *processing and marketing* on a co-operative basis and for the development of *storage and warehousing.*

(iii) State partnership, including financial partnership, for the benefit of the rural producer, in a programme for the organization on a co-operative basis of such of the other economic activities of the village as are of importance to him as cultivator, agricultural labourer or handicraftsman, these activities including farming, irrigation, provision of seed and manure, transport, fisheries, *milk supply, dairying, livestock-breeding and cottage industries.*

(iv) Integration of, and the State's financial participation in, an important sector of commercial banking (viz., that which in various degrees is already associated with the State and which, if the banks concerned are made to come together, broadly covers the whole of India) in order that the State-partnered, country-wide banking institution so formed may, among other things, be charged with and carry out the positive duty of endeavouring to do its best to help the development of *rural and co-operative banking.* It will be expected to discharge this duty by the several means open to it including, principally, the effecting of arrangements for the readier and cheaper remittance of money, especially in relation to the relatively undeveloped areas which have been neglected by commercial banks and in which, without such facilities, no development is possible of rural or co-operative banking.

(v) Recognition of the importance of *training* a new type of personnel altogether, which is not only technically qualified, but is also in its sympathies, attitudes and mental equipment rurally biased (i.e., among other things is trained to feel at home in rural society, to respond readily to rural needs, to study them with under-

standing, and to administer to them without distinction of class or person) in order that the new functions devolving on the State by reason of the above may be discharged both efficiently and for the benefit of the rural population.

(vi) Recognition of the need so to design the *extent and manner of State participation* involved in State partnership as to ensure that, while responsiveness to the new policies is effectively created, every precaution is taken to safeguard the essential character of the institution in which such participation takes place and nothing is done such as may lead to State interference in its day-to-day working; recognition, further, so far as co-operative credit and co-operative economic activity are concerned, of the need so to regulate the extent of State partnership at different levels as (a) at the rural base to leave scope for the societies to become fully 'co-operative', within a measurable period, by the process of themselves replacing the State part of the share capital and (b) at the higher levels to retain what may be described as the major partnership of the State until such time, however long, as may be required in the interests of the co-operative organization at the rural base which, before it develops sufficient strength, and for the purpose of developing such strength, will need, against the competition and opposition of private vested interests, and for various other reasons, a support which is at once powerful, sympathetic, financially adequate and technically competent.

(vii) Recognition of the consideration that *rural savings* are best mobilized through, and in association with, productive economic activity in which the cultivator, the labourer and the worker in cottage industries are direct participants, and that the savings so mobilized (and very much more) will all be needed, and should therefore be utilized, for the benefit of the rural areas themselves.

Directions of development

3. *Main lines of reorganization and development.* These may be briefly indicated as follows:

(i) Financial, administrative and technical strengthening of state co-operative banks at the apex of the co-operative credit organization of the State; similar strengthening at the district (or 'central') level, the reorganization taking the form, according to differing conditions in different areas, of either establishment of branches of state co-operative banks or expansion and consolidation of central co-operative banks; the maximum possible co-ordination of both these categories—at the apex and district (or 'central') levels—with land mortgage banks; the organization, within this framework, of new central and primary land mortgage banks in the several States which lack these institutions; at the primary base, gradual establishment of larger-sized primary credit societies (supported by the apex and central machinery of co-operative credit) of a size and with a financial and administrative structure adequate for their effective functioning; channelling of not only agricultural credit, but eventually also rural industrial credit, through this structure; realistic devices (e.g., a modified form of chit fund) for the utilization of the primary credit structure for meeting also, to a limited extent, the consumption needs of agricultural labourers, handicraftsmen, etc., besides those of the member cultivators themselves.

(ii) The progressive organization, on a co-operative basis, of marketing and processing, through the promotion of co-operative institutions of the appropriate type with the needed financial, administrative and technical assistance from the State, and the development of storage and warehousing through State-partnered organizations at the all-India and State levels, and, at other levels, through co-operative institutions of the appropriate type with the needed financial and other assistance from the all-India and State organizations.

(iii) For the progressive organization on a co-operative basis of as large a sector of rural economic activity as possible e.g., farming, irrigation, transport, milk supply, dairying, livestock-breeding, cottage industries, etc.—the promotion of the appropriate type of co-operative organization at the rural base, and as and when necessary at the higher levels, with the needed financial, administrative and technical assistance from the State.

(iv) Establishment of a State Bank of India through the amalgamation of the Imperial Bank and certain State-associated banks; major State participation in the new and enlarged institution; the expansion of the State Bank to and beyond district headquarter places; the conversion, through this programme, of a large number of non-banking treasuries into banking treasuries; the effecting thereby of a significant increase, especially in undeveloped areas, of facilities for cheap and ready remittance of money; and, finally, responsive support by this institution to the co-operative structure connected with credit and economic activity, especially marketing and processing.

(v) The organization by the Central Committee for Co-operative Training of a co-ordinated system of training, all-India, regional and State-wise, for personnel of both co-operative departments and co-operative institutions, in order to fulfil effectively the personnel needs of the Governments and institutions; co-ordination between this and the training given to 'extension' personnel.

Instruments of development

4. *Main agencies of reorganization and development.* We use the word 'agency' as covering the State Governments, the Central Government, the Planning Commission, the Reserve Bank and all the other institutions principally concerned with the lines of development mentioned above, whether the degree of participation amounts to direct responsibilities in the implementation of policies or is confined to overall planning, co-ordination, etc. It is, of course, the State Governments that will be directly responsible for the implementation of the programme of co-operative development, whether of credit or of economic activity, in their respective areas. Besides the State Governments and the Planning Commission, the main agencies envisaged are:

(i) the Reserve Bank of India; (ii) the Ministry of Food and Agriculture of the Government of India; (iii) the National Co-operative Development and Warehousing Board, the All-India Warehousing Corporation and the State Warehousing Companies; (iv) the State Bank of India; (v) the Central Committee for Co-operative Training; and, last but not least, (vi) the Co-operative Movement itself.

Finance for development

5. *Main funds for the financing of reorganization and development.* These will be as follows:

(i) *Under the Reserve Bank*

(*a*) The National Agricultural Credit (Long-term Operations) Fund.

(*b*) The National Agricultural Credit (Stabilization) Fund.

(ii) *Under the Ministry of Food and Agriculture*

The National Agricultural Credit (Relief and Guarantee) Fund.

(iii) *Under the National Co-operative Development and Warehousing Board*

(*a*) The National Co-operative Development Fund.

(*b*) The National Warehousing Development Fund.

(iv) *Under the State Bank of India*

The Integration and Development Fund.

(v) *Under each State Government*

(*a*) The State Agricultural Credit (Relief and Guarantee) Fund.

(*b*) The State Co-operative Development Fund.

(vi) *Under each state co-operative bank, central co-operative bank, etc.*

The Agricultural Credit Stabilization Fund.

The five ' national ' Funds are of special importance. They will be under the Reserve Bank of India, the Ministry of Food and Agriculture and, associated with the latter, the National Co-operative Development and Warehousing Board. Recommendations concerning allotments to these and the remaining Funds will, along with our other principal recommendations, be found in the next chapter.

CHAPTER 32

INTEGRATED SCHEME (III): PRINCIPAL RECOMMENDATIONS

A. THE NATIONAL FUNDS FOR DEVELOPMENT OF CO-OPERATIVE AGRICULTURAL CREDIT, CO-OPERATIVE ECONOMIC ACTIVITY, ETC.

National Funds

WE recommend that for the next five years, after which the position should be reviewed, the Reserve Bank and the Government of India should make to the Funds with which they are respectively concerned *annual* allotments of *not less than* the amounts specified below:

(*a*) Rs 5 crores, by the Reserve Bank of India, to the *National Agricultural Credit* (*Long-term Operations*) *Fund*;

(*b*) Rs 1 crore, by the Reserve Bank of India, to the *National Agricultural Credit* (*Stabilization*) *Fund*;

(*c*) Rs 1 crore, by the Government of India, to the *National Agricultural Credit* (*Relief and Guarantee*) *Fund* under the Ministry of Food and Agriculture; and

(*d*) Rs 5 crores in all, by the Government of India, to:

(i) The *National Co-operative Development Fund* and

(ii) The *National Warehousing Development Fund,*

both to be instituted under the National Co-operative Development and Warehousing Board.

The normal apportionment between the last-mentioned two Funds should be Rs 3 crores and Rs 2 crores respectively, but with powers to the Board to appropriate sums from one Fund to the other. Further, there should be initial *non-recurring* allocations of (i) Rs 5 crores by the Reserve Bank to the National Agricultural Credit (Long-term Operations) Fund and (ii) Rs 5 crores by the Government of India to the National Warehousing Development Fund.

B. PROGRAMME OF DEVELOPMENT

2. Our principal recommendations as to the programme of development may be outlined under four heads:

I. Development of Co-operative Credit;

II. Development of (1) Co-operative Economic Activity, especially Marketing and Processing, and (2) Storage, Warehousing and Distribution;

III. Development of Rural and Co-operative Banking Facilities; and

IV. Development of Facilities for the Training of Personnel.

(1) *Reserve Bank*

Reserve Bank

3. (i) The Reserve Bank of India should collaborate with the State Governments in drawing up plans for the co-ordination and reorganization of co-operative credit institutions on the lines elsewhere indicated in this chapter and elaborated in further detail in Chapters 36, 37 and 38. For this purpose, the Reserve Bank should be statutorily empowered to make long-term loans to State Governments. It should make such loans in order that the State Governments may, directly or indirectly, participate in the share capital of state co-operative banks, central co-operative banks, larger-sized primary credit societies, central land mortgage banks, primary land mortgage banks, etc. The loans may be made from the National Agricultural Credit (Long-term Operations) Fund.

(ii) The Reserve Bank should continue to give short-term accommodation, usually on the guarantee of the State Government, through state co-operative banks. The proposed increase in the share capital of state co-operative banks, central co-operative banks, etc., will make possible a considerable increase in the volume of the short-term agricultural credit now supplied by the Reserve Bank. It should also give medium-term loans (of periods ranging from 15 months to 5 years) to state co-operative banks and through them to central co-operative banks or societies. The present overall statutory limit of Rs 5 crores should be removed, as well as the restriction relatable to the owned funds of state co-operative banks; the individual limits will be set by the Reserve Bank's appreciation of the financial position of each of the state co-operative banks and central co-operative banks to which it lends. The medium-term loans would be given out of the National Agricultural Credit (Long-term Operations) Fund.

(iii) The Reserve Bank should be enabled to give long-term accommodation (i.e., accommodation for periods exceeding 5 years) to land mortgage banks (*a*) by way of direct loans and (*b*) by purchase of the whole or part of 'special development debentures' of the land mortgage banks. It will do so by drawing upon the National Agricultural Credit (Long-term Operations) Fund. This type of operation, however, will be distinct from the purchase of 'marketable' debentures which, in pursuance of the Bank's existing policies, is already part of its ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government.

(iv) The National Agricultural Credit (Stabilization) Fund is to be utilized for the purpose of granting medium-term loans to state co-operative banks etc., in circumstances in which the Reserve Bank is satisfied that any of its short-term loans to them of which repayment has become due cannot, without serious dislocation to the co-operative credit structure of the State, be repaid in time on account of famine, drought, etc., and consequently that repayment of such loans, or part thereof, may justifiably be allowed to be deferred. In such a case, a book adjustment will be made between the Stabilization Fund and the Banking Department of the Reserve Bank; the short-term loan will be technically treated as repaid to the Banking Department, but in effect converted into a medium-term loan from the Reserve Bank's Stabilization Fund. The Reserve Bank may make this facility conditional on the state co-operative bank concerned maintaining a similar Agricultural Credit Stabilization Fund; the same condition may be made applicable to central

co-operative banks and, where feasible, to the larger-sized primary societies; the Reserve Bank may further insist that part of the overdue liability should be met from such Stabilization Funds kept within the co-operative credit structure itself.

(v) The operations of these Funds and the planning and execution (within the Reserve Bank's own sphere) of the programmes and policies for which they are intended to be utilized should remain the responsibility of the Reserve Bank and its Board, in their normal functioning, and should not be vested in a separate body, statutory or other. The Agricultural Credit Department of the Reserve Bank should be reorganized and strengthened for the purpose of discharging adequately the additional responsibilities placed on the Bank. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank should be continued, though as a smaller expert body. At the same time, there should be an Advisory Council which is representative of the appropriate interests on a nation-wide basis. This Council should be common to the Reserve Bank and the Ministry of Food and Agriculture, including the National Co-operative Development and Warehousing Board

(2) *Central Government*

Central Government

4. The Ministry of Food and Agriculture should utilize the National Agricultural Credit (Relief and Guarantee) Fund in order to give grants, by way of relief, to co-operative credit institutions, through the State Governments concerned, for the purpose of writing off irrecoverable arrears where these have assumed a magnitude which threatens the stability of the structure and provided that the Ministry is satisfied that such arrears have arisen from causes, such as widespread or chronic famine, beyond the control of the co-operative institutions concerned. Relief from this Fund may be made conditional on the State Government making a stipulated contribution, for the same purpose, from a corresponding Agricultural Credit (Relief and Guarantee) Fund maintained by it. (The other purpose of the Fund, when it is maintained by a State Government, is to meet liabilities arising from guarantees given by Government, e.g., in respect of land mortgage banks, in the event of such liabilities actually arising. The relevance of this provision will be explained in Chapter 40.)

(3) *State Governments*

Role of State Governments

5. (i) It is of course the State Governments that will remain responsible for the implementation of planned programmes of credit development. We recommend that these programmes be drawn up, as early as possible, in consultation with the Reserve Bank.

(ii) *Taccavi* and similar agricultural loans from State Governments, and Central Government funds, if any, channelled through State Governments, should (subject to the following exceptions) be strictly limited to 'distress' finance, i.e., finance made available during famine and similar distress. The exceptions are as follows:

(*a*) Where co-operative credit institutions are yet to be developed, and purely as a transitional arrangement, *taccavi* may continue to be given for productive purposes. But in all such cases co-operative institutions should be sought to be promoted as early as possible.

(*b*) Special credit arrangements may be made for certain areas or for certain classes of people. The former would include areas which are markedly undeveloped in the economic aspect (e.g., regions of chronic famine) or in both social and economic aspects (e.g., areas inhabited by backward tribes). The latter would comprise economically backward occupational classes when special policies of rehabilitation are adopted for their benefit.

(4) *The Co-operative Movement*

Structure and personnel of co-operative movement

6. We make the following broad recommendations in regard to the future development of the co-operative credit system:

(i) *Structure and personnel*: (*a*) As indicated earlier, it is hoped that each State Government will, as early as possible, draw up, in consultation with the Reserve Bank, a phased programme for the reorganization of its co-operative credit institutions at all levels.

(*b*) The reorganization should be on the basis of major State partnership. Such State partnership should continue to be 'major' for an indefinite period at the apex and district levels. It will be so for a more limited period at the primary level. State participation will be direct at the apex level and indirect at the district and primary levels, i.e., through the state co-operative bank in the case of central banks, and through the state and central co-operative banks in the case of larger-sized primary credit societies.

(*c*) Trained personnel for the key posts of credit institutions at the higher levels and where feasible also of the larger-sized primary societies, should be 'deputed' to these institutions, wherever that is necessary and suitable, from cadres instituted either by the state co-operative bank (if sufficiently strong and developed) or by the State Government. (For marketing etc., as distinguished from credit, this function of providing technical personnel will necessarily devolve on State Governments and not on state co-operative banks.) The State Government's Co-operative Service may be reorganized in two broad divisions: (*a*) Administrative, and (*b*) Technical. There would thus be a State Co-operative Administrative Service (Class I and Class II), and a Subordinate Co-operative Service (Administrative); as also a State Co-operative Technical Service (Class I and Class II) and a Subordinate Co-operative Service (Technical).

(*d*) There should be co-ordination of the maximum possible extent between the short-term and long-term parts of the credit structure. While remaining legally and financially distinct from each other, state co-operative banks and central land mortgage banks should have a common administrative staff, a common building and, if possible, a common board of directors; where the last is not feasible, there should at least be some directors common to the two boards.

(*e*) One of the main lines of future development of the primary credit structure should be in the direction of organizing larger-sized societies with limited liability.

(*f*) Complementary to the recommended establishment of a National Agricultural Credit (Stabilization) Fund in the Reserve Bank is the need to institute individual

Agricultural Credit Stabilization Funds of their own by state co-operative banks and central co-operative banks and, wherever feasible, also by larger-sized primary credit societies.

Credit operations and supervision

(ii) *Operations and supervision*: (*a*) The basis for short-term credit should be the system of 'crop loans'. The system may be briefly described as one which concentrates on productive purposes; provides short-term loans on the basis that a crop is anticipated, and not primarily that a title exists; relates such loans in amount to the estimated outlay on raising the crop; and, as and when the crop is sold, recovers the loans from the proceeds of the sale. The loans should, to the maximum extent possible, be disbursed in kind.

(*b*) The subsistence needs of the agricultural producer—as distinguished from specific 'consumption' needs—should be met, as part of normal agricultural credit requirements, by the primary credit society. For credit needs connected with specific items of 'consumption' (such as marriages and illnesses), a chit fund may be incorporated within the framework of the larger-sized primary agricultural credit society. The membership of the chit fund may be wider than that of the society and include, not only the cultivators, but also the agricultural labourers and the handicraftsmen and artisans of the village.

(*c*) Medium-term loans (15 months to 5 years) should be provided by the short-term structure of co-operative credit; in this context, special attention should be paid to loans for the purchase of livestock. The making of long-term loans should be the responsibility of land mortgage banks; these should be established (or reorganized) in different States.

(*d*) At the district level, the central bank or the branch of the apex bank should have a 'section' for dealing with long-term credit on an agency basis. This section may be converted into a branch of the central land mortgage bank in course of time. Eventually, primary land mortgage banks should be formed.

(*e*) Loans of land mortgage banks should be primarily for productive purposes. Different types of aid and accommodation from Government and the Reserve Bank are envisaged. The flotation of 'rural debentures' is among the various changes recommended in system and procedure.

(*f*) Supervision of societies should be a function of the apex and central banks; audit, along with office inspection of co-operative organizations, should continue to be the responsibility of the State Government.

II. DEVELOPMENT OF (1) CO-OPERATIVE ECONOMIC ACTIVITY, ESPECIALLY MARKETING AND PROCESSING, AND (2) STORAGE, WAREHOUSING AND DISTRIBUTION

(1) *Co-operative Economic Activity, especially Marketing and Processing*

Co-operative marketing, processing, etc.

7. (i) The National Co-operative Development and Warehousing Board should, from its National Co-operative Development Fund, make long-term loans, on suitable terms, to State Governments to enable the latter to participate in the share capital of co-operative societies when undertaking such activities as processing, marketing, milk supply, dairying, etc.

(ii) *The State Governments* : The responsibility for strengthening the administration, for providing the necessary technical services and generally for implementing a planned programme in respect of the development of co-operative processing, co-operative marketing, etc., will of course primarily vest in the State Government.

(iii) *The Co-operative Movement* : Our broad recommendations in this respect are as follows:

(*a*) Co-operative societies for marketing, processing, milk supply, dairying, etc., may be organized in conformity with a plan drawn up by the State Governments in conjunction with the National Co-operative Development and Warehousing Board. The organization of the societies should be on the basis of major State partnership. Trained technical personnel for these purposes should, as already indicated, be provided by the State Government.

(*b*) Extension and development of co-operative marketing societies at the primary level, and at the other levels to the extent necessary to support the primary structure, is envisaged. The programme should be vigorously pursued; but, to start with, societies should be organized at selected places after adequate preliminary consideration and preparation, with a view to success being assured at the important initial stage of development. This also applies to societies for processing and other important economic activities.

(*c*) It is necessary to ensure by positive State supervision that every marketing society at the primary level is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests adequately looked after by those in charge of it.

(*d*) Wherever a regulated market exists in the area of operations of a marketing society, the local marketing society (as also the local co-operative banking organization, if any) should have the right to nominate one or two of its members on the market committee; where, in the circumstances mentioned in a subsequent recommendation, the regulated market happens to be managed by the All-India Warehousing Corporation of the State Warehousing Company, this right would be exercised in relation to the advisory committee formed to assist the officer of the Company or the Corporation.

(*e*) In regard to marketing societies (also processing and similar societies), there should be compulsory additional contributions to share capital, the amount of contribution being related to the turnover of a member's sales through that society or, alternatively, to the size of the loan taken by the member (from, e.g., a credit society with which the operations of the marketing or processing society are co-ordinated).

(*f*) As a rule, there should be no compulsory acquisition of processing plants etc., for the purpose of entrusting them to co-operatives but, where members of a co-operative society or persons prepared to form themselves into a co-operative society offer to subscribe not less than 30 per cent of the share capital, and provided the State Government is satisfied that acquisition is in conformity with the public interest, it may, after notification, compulsorily acquire the concern for this purpose.

(*g*) State Governments should take steps for licensing all plants, factories and mills (other than at the cottage industry level) engaged in the processing of agricultural

commodities or in related activities and meanwhile promote as soon as possible such legislation as may be necessary for the purpose. Before issuing a licence for a *new* plant, factory or mill in any particular area, Government should ascertain whether any existing co-operative society, or one likely to be formed, is both willing and in a position to take up the work. In that event, the licence should be issued to the society and not to the private party.

(2) *Storage, Warehousing and Distribution*

Storage, Warehousing and Distribution

8. (i) The National Co-operative Development and Warehousing Board should be in charge of the two distinct, but organizationally interrelated, lines of development concerned with storage and warehousing on the one hand, and distribution on the other, the distribution pertaining to the basic but standardized requirements of the cultivator (*a*) as producer and (*b*) as consumer. It should plan and finance such activities by granting loans, subsidies, etc., drawing for this purpose on the National Warehousing Development Fund. Another use for this Fund will be to enable the Board to subscribe to the share capital of the All-India Warehousing Corporation besides enabling the latter, as well as the State Governments to subscribe to the share capital of State Warehousing Companies. Lastly, the State Warehousing Companies can themselves contribute to the share capital of co-operative societies which take up the provision of storage or warehousing as their primary function or one of their primary functions.

(ii) The All-India Warehousing Corporation should be in charge of the development of storage and warehousing at centres of all-India importance.

(iii) The State Warehousing Companies, formed by joint contribution to the share capital by the All-India Warehousing Corporation and the State Governments concerned, should be in charge of the development of storage and warehousing at centres of importance at the State, district or sub-divisional levels.

(iv) The management of the regulated markets, if any, at centres to which the All-India Warehousing Corporation or the State Warehousing Company has extended its operations should be statutorily entrusted to that institution. A local advisory committee may be appointed to assist the officer of the institution at such places.

(v) The co-operative organization will be concerned with the development of storage and warehousing in the interior of the district, i.e., in smaller towns, especially if such towns happen to be marketing centres. The picture will be complete if societies in the bigger villages will also each build their own godowns, seed-stores and so on, in exercise of their multi-purpose functions.

(vi) At all the levels mentioned above, godowns and warehouses may also be used for the purpose of distribution of commodities such as fertilizers etc., as also standardized articles of basic use to the cultivator such as sugar, kerosene and matches. Such distribution should be done on an 'agency' basis, i.e., without trading risk to the Corporation, Company or society.

(vii) There will ordinarily be no compulsory acquisition of godowns and warehouses for the purpose of entrusting them to the All-India Warehousing Corporation or a State

Warehousing Company or a co-operative society; where, however, a godown or a warehouse is situated at a regulated market or other place notified in this context, the acquisition may be compulsory but on payment of compensation etc.

III. DEVELOPMENT OF RURAL AND CO-OPERATIVE BANKING FACILITIES

Role of the State Bank of India

9. These facilities will be provided principally by the State Bank of India. Our broad recommendations for the establishment and future programme of this institution are as follows:

(i) The State Bank of India should be formed by the statutory amalgamation of the Imperial Bank of India and the ten State-associated banks elsewhere specified (together with a few minor banks to be selected after further examination on the lines separately indicated); the share capital of the new institution should be expanded, and the additional shares allotted (on the basis of non-transferability and restricted dividend) to the Government of India and the Reserve Bank; in addition, the Government of India should also take over certain shares now held by State Governments; together, the Central Government and the Reserve Bank should hold a majority of votes in the State Bank. (According to our proposals, the composition of the share capital of the new institution will be such that, if account is also taken of certain modifications suggested in regard to existing voting rights with a view to setting right anomalies, the Government of India and the Reserve Bank will together hold 52 per cent of the share capital and of the votes. Details are given in Chapter 34 on the State Bank of India.)

(ii) A majority of the directors of the Central Board of the State Bank should be nominated by the Central Government and the Reserve Bank together. The Chairman should be appointed by Government after consultation with the Board. The appointment or removal of the Managing Director and the Deputy Managing Director should be subject to the approval of Government.

(iii) There should be six Local Committees, one each for six suitable areas into which the jurisdiction of the bank should be divided. The Chairman and a majority of the members of the Local Committees should be nominated by the Central Board.

(iv) The State Bank of India should pursue a large and expeditious programme of branch extension to and beyond the district headquarter places; e.g., it should also open branches at sub-divisional headquarters. The losses, if any, on such expansion, beyond an agreed or prescribed level, should be met out of the dividend payable to the Reserve Bank and the Government of India on their shares. The dividend on these shares should be credited to an 'Integration and Development Fund' from which these and certain other specified liabilities can be met.

(v) There should be no interference by the State in the day-to-day operations of the State Bank of India. Nor of course should there be any lowering of the standards of sound banking. For its part, the State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit and, *especially*, *marketing and processing*. (It is of course the Reserve Bank, primarily, which will continue to

lend to state co-operative banks and through them to central co-operative banks etc.) The branch extension of the State Bank of India should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities. Particular attention to this aspect should be given at the sub-divisional level.

IV. DEVELOPMENT OF FACILITIES FOR THE TRAINING OF PERSONNEL

Training of co-operative personnel

10. (i) The Central Committee for Co-operative Training, which is already taking steps to organize co-operative training on a country-wide basis (*a*) by establishing regional centres for intermediate personnel (besides the all-India centre at Poona for higher and intermediate personnel) and (*b*) by improving the training facilities for subordinate personnel in collaboration with State Governments, should be placed in possession of larger funds by the Government of India and the Reserve Bank in order that it may further enlarge the scope and expand the coverage of its training facilities.

(ii) These facilities should cover all levels of training, and all personnel whether departmental or institutional. In particular, attention should be paid to banking, marketing and industrial co-operatives, as also to administration, supervision and audit.

(iii) The training facilities should be co-ordinated with the needs of the personnel of Community Projects and Extension Blocks.

(iv) In organizing such training, the Central Committee should take full account of the need to train a new type of official who will be responsive to rural needs, besides possessing the necessary background of training.

V. MISCELLANEOUS

11. The above are our main recommendations. The private moneylender, the trader, the indigenous banker and the commercial banks (other than the State Bank of India) will, in their individual degrees, supplement the integrated scheme of rural credit, though not finding place in the scheme itself. The commercial banks, in particular, will be enabled, through the provision of a wide network of godowns and warehouses, to make credit available for agricultural trade on a much larger scale than hitherto.

IX. INTEGRATED SCHEME: DETAILED RECOMMENDATIONS

CHAPTER 33

THE RESERVE BANK: RECOMMENDATIONS

Introductory

Of the Reserve Bank's role in the integrated system, we have three principal observations to make:

(1) It is of crucial importance;

(2) It represents a natural and logical evolution; and

(3) It adds to the Reserve Bank's strength, soundness and ability in the discharge of its wider functions as the Central Bank of the country.

These need to be further explained.

Crucial role of Reserve Bank

2. It may be recalled that the main parts of our integrated scheme are three, each related to and dependent on the other two.

The first is the credit and monetary part designed (i) to make credit available to the rural producer, where it is not now available, or is only inadequately available, and to do this through his own association with himself and the State, i.e., by an institutional system of State-partnered co-operative credit which the State Governments are to promote with the active assistance of the Reserve Bank; and as a necessary and precedent condition in many cases, (ii) to make banking and remittance facilities available to co-operative credit institutions, existing or intended, especially in those areas in which such facilities are now scarce or non-existent, and thus through the agency of the State Bank of India, working in close association with the Reserve Bank, assist in rectifying conditions which are of grave disadvantage to the rural producer of those areas.

The second of the main parts of the integrated scheme is the promotion by State Governments of the development, on a co-operative basis, of certain economic activities essential to the rural producer, such as marketing and processing, and the parallel promotion by all-India and State organizations of the development of storage and, warehousing of agricultural commodities together with distribution of goods and implements of importance to the cultivator as producer and consumer. At the all-India level of planning and finance, both these lines of development converge in the National Co-operative Development and Warehousing Board.

The third main part of the scheme is that which is concerned with the provision of trained personnel for these tasks of reorganization and development, even as the other two are designed, each in its own sphere, to furnish the framework of organization and generate the forces of development, i.e., development of co-operative credit and development of co-operative economic activity. For this important task of training the workers, official and non-official, in the needed way and in the needed numbers, the responsibility, as we see it, will be vested at the all-India level in the Central Committee for Co-operative Training, strengthened we hope by the participation and support of a select, informed and

purposive body of non-official co-operators, into which the All-India Co-operative Union has today the unique opportunity of converting itself by taking the appropriate decisions. From the Central Committee, the channels of action will then be official and non-official, in close intersection, the former aligned to State Governments, the latter to co-operative institutes and associations.

The three main sectors of the integrated system of development, then, are co-operative credit, co-operative economic activity (especially processing and marketing) and co-operative personnel. In the first, the Reserve Bank will occupy the most strategic position; in the other two, it will be among the principal participants; and, for all three, much will have to be expected of it by way of active co-ordination. That is what we mean by the observation that the Reserve Bank's role in the integrated system envisaged by us will be of crucial importance.

Evolution of role

3. We have referred to State-partnered co-operative credit and to State-initiated development of rural banking facilities. The Reserve Bank, as we have seen, has already initiated progress in both these directions, in the first direction through the programme in which it has been collaborating with the State Governments for the establishment or reorganization of state co-operative banks etc., and in the second direction through its collaboration, on the one hand with the Imperial Bank of India for branch extension in Part A and Part C States, and on the other with the Governments and State-associated banks of Part B States for a 'banking integration' consisting of the forging of links between the State Governments and itself, and between itself and the State-associated banks, the latter as agents who among other things can help diffuse, as does the Imperial Bank, the benefits that may be conferred by its currency chests. In relation to some of the other aspects of development outlined above, the Reserve Bank (as we have seen in Chapter 23 on its record) has been working in co-ordination with the Planning Commission and the Ministry of Food and Agriculture. It has initiated and is now one of the two principal partners in the all-India scheme of co-operative training. These, briefly, are the implications of our second remark at the outset of this chapter, viz., that the role assigned to the Reserve Bank in the integrated system now proposed is the logical and natural outcome of the part which it has already commenced to play in this context.

Appropriateness of suggested role

4. To quote again from the Report of the Board of Directors of the Reserve Bank, from which we have elsewhere reproduced a whole extract. "In no other sphere perhaps as in that of rural finance is it of so little use, in Indian conditions, to turn for guidance to the central banking practices evolved in the highly industrialized countries of Western Europe." We believe that, by the suggested enlargement of the 'development' functions it has already assumed, however much the Reserve Bank may be further departing from the orthodox pattern of central banking in other and differently situated countries, it will at the same time be approaching nearer what the Central Bank of *this* country ought to be. These 'development' activities will, for their pursuit, require two things besides a well-considered and determined policy. They need personnel, and they need finance. The personnel is—and, as necessary, more personnel can be—provided in those distinct departments of the Bank which exist or have been newly created for the purpose: the Agricultural Credit Department and the Department of Banking

Development. There is thus no cause for apprehension that these activities will divert the time and energy of the Bank from the discharge of its more normal and more orthodox functions as a Central Bank. As for the finance, our scheme deliberately provides for two distinct Funds—the Long-term Operations and Stabilization Funds—from which will be met the new liabilities arising from the new functions and the new responsibilities; and the scheme as a whole, involving as it does support from all directions, economic, financial, administrative, technical, supervisory and so on for the strengthening of the co-operative credit structure—to which the Reserve Bank now makes short-term accommodation increasingly available—will actually make the Bank's position very much stronger, and certainly not in the slightest degree weaker, than at the present moment, in regard to its stake, and therefore of the stake of the country, in the ability of that structure to utilize properly and pay back in time the short-term finance it will continue to borrow from the Bank. Moreover, as we have indicated before, the scheme as a whole holds the only prospect that we can see of the primary credit structure of the co-operative movement being able eventually to depend largely on its own resources and, therefore, of the Reserve Bank being ultimately able to be in practice the 'ultimate' source of finance and the 'supplementary' source of finance which in the past it firmly announced its intention of being, and which now, in the light of orthodox theory, it is sometimes exhorted to be. These are some of the considerations we have had in mind in making the third observation at the commencement of this chapter to the effect that the integrated system outlined by us will not only not detract from the strength, soundness and ability of the Reserve Bank to discharge the entirety of its inherent functions as the Central Bank of the country, but in fact result in a considerable accession to such strength, soundness and ability; all this, of course, besides immeasurably increasing its usefulness to the country of which it happens to be the central banking institution.

Classification of recommendations

5. Proceeding now to deal with some of the more detailed recommendations in expansion of those set out broadly in Chapter 32, we divide them into two categories: I Recommendations concerning *functional and legislative matters* whether these pertain to the integrated scheme as a whole, or to one or both of the two main aspects of the new role of the Reserve Bank as envisaged in that scheme, viz., the aspect of development of rural banking facilities through the State Bank of India and that of development and operation of co-operative credit in conjunction with State Governments, state co-operative banks, etc.; and II Recommendations concerned with *administrative and other matters* pertaining to the two aspects just mentioned and, therefore, connected with (A) the State Bank of India and (B) the development of the co-operative credit structure.

I. RECOMMENDATIONS RELATING TO FUNCTIONAL AND LEGISLATIVE MATTERS

Funds

6. The Reserve Bank should contribute (1) not less than Rs 5 crores per annum to the National Agricultural Credit (Long-term Operations) Fund and (2) not less than Rs 1 crore per annum to the National Agricultural Credit (Stabilization) Fund; the position in regard to these contributions should be reviewed at the end of five years. In addition, there should be

an initial non-recurring allotment of Rs 5 crores to the National Agricultural Credit (Long-term Operations) Fund. The operations of these Funds and the planning and execution (within the Reserve Bank's own sphere) of the programmes and policies for which they are intended to be utilized should remain the responsibility of the Reserve Bank and its Board, in their normal functioning, and should not be vested in a separate body, statutory or other.

Loans to State Governments

7. Out of the National Agricultural Credit (Long-term Operations) Fund, the Reserve Bank should be enabled to make long-term loans to State Governments for the purpose of their subscribing, directly or indirectly, to the share capital of co-operative credit institutions, whether these are institutions which give short-term and medium-term credit (state co-operative banks, central co-operative banks, larger-sized primary credit societies, etc.) or long-term credit (central land mortgage banks, primary land mortgage banks, etc.), provided the institution is one mainly designed for giving *rural* credit, either in the sphere of agricultural and ancillary activities or of cottage and small-scale industries.

Short-term and medium-term credit

8. The Reserve Bank should continue to make short-term accommodation available through state co-operative banks; as at present, such accommodation should be usually given on the guarantee of State Governments. The proposed increase in the share capital of state co-operative banks, central co-operative banks, etc., will make possible a considerable increase in the volume of the short-term agricultural credit now supplied by the Reserve Bank; this increase will in part be related to, but of course be much larger than, the increase in the share capital itself. The Reserve Bank should also give medium-term loans (15 months to 5 years) to state co-operative banks and through them to central co-operative banks or societies. The present overall statutory limit of Rs 5 crores should be removed as well as the restriction relatable to the owned funds of the state co-operative bank; the individual limits will be set by the Reserve Bank's appreciation of the financial position of each of the state co-operative banks and central co-operative banks to which it lends. The medium-term loans would be given out of the National Agricultural Credit (Long-term Operations) Fund.

Long-term credit

9. The Reserve Bank should be enabled to give long-term accommodation to land mortgage banks (*a*) by way of direct loans and (*b*) by purchase of the whole or part of 'special development debentures' of the land mortgage banks. It will do so by drawing upon the National Agricultural Credit (Long-term Operations) Fund. This type of operation will be distinct from the purchase of 'marketable' debentures which, in pursuance of the Bank's existing policies, is already part of its ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government.

Loans for stabilization

10. The National Agricultural Credit (Stabilization) Fund should be utilized by the Reserve Bank for the purpose of granting medium-term loans to state co-operative banks etc., in circumstances in which it is satisfied that short-term loans of which repayment to it has become due by the state co-operative banks etc., cannot, without serious dislocation to the credit structure of the State's co-operative system, be repaid in due time on account of famine, drought,

etc., and consequently that repayment of such loans, or part thereof, may justifiably be allowed to be deferred. In such a case, a book adjustment will be made between the Stabilization Fund and the Banking Department of the Reserve Bank; the short-term loan will be technically treated as repaid to the Banking Department, but in effect converted into a medium-term loan from the Reserve Bank's Stabilization Fund. The Reserve Bank may make this facility conditional on the state co-operative bank concerned maintaining a similar Agricultural Credit Stabilization Fund, the same applying to central co-operative banks and, where feasible, the larger-sized primary societies; the Reserve Bank, in such a case, may further insist that part of the overdue liability should be met from such Stabilization Funds kept within the co-operative credit structure itself.

States and Reserve Bank

11. We recommend that the Reserve Bank of India Act be so amended as to make it obligatory on all State Governments, and not merely as hitherto the State Governments of Part A and Part C States, to appoint the Reserve Bank as their sole banker. As we have pointed out in Chapters 23 and 24, the Governments of most Part B States have in fact appointed the Reserve Bank as their banker, the exceptions being the Governments of Rajasthan and PEPSU. In Rajasthan, the difficulty, as we have seen, has been that the three banks which at present conduct the cash work of the treasuries of the State Government have hitherto not reached an effective agreement to amalgamate and form the larger institution which, as the Reserve Bank rightly insists, should be established before the agency functions of the Reserve Bank can be entrusted to a banking institution operating within the State. With no near prospect of the formation of such an amalgamated institution, both the State Government and the Reserve Bank seem, justifiably, to be of the view that there is no particular point in the former appointing the latter as its banker. This difficulty vanishes when, as we have suggested, all these three banks along with a number of other State-associated banks are integrated with the Imperial Bank of India into the larger entity which we have called the State Bank of India. As regards PEPSU, the question appears to be one of principle, viz., whether, in the context of the composite banking structure that has been in the process of development through political, financial and other integration, it should be open to one State Government to withhold a step necessary for bringing the banking set-up within that State into the larger picture of all-India policies. The reluctance of the Government of PEPSU to appoint the Reserve Bank as the State Government's sole banker, and what appear to be their uncertain intentions regarding the place of the Bank of Patiala in relation to the cash work of their treasuries on the one hand, and to the Reserve Bank on the other, are clearly inconsistent with the lines of development which we envisage and which in principle all other, and in practice most other, Part B States have already adopted. It is to our mind obvious that if the final voice in this matter is to be that of the State Government, the result will be permanent damage to both commercial and co-operative banking in the State, apart altogether from the adverse effects it is bound to have on the State Government's own remittance and other arrangements. For, without an agent in the State, the Reserve Bank can obviously not entrust its currency chests to a banking institution in the State and conditions will not have been created for the economic operation of commercial and co-operative banks within the State. Even more serious perhaps will be the retardation in the State of development on the lines we have recommended for the whole of India in regard to the co-operative banking structure as part of the integrated scheme. For one thing, the Reserve Bank's

own far-reaching functions in that scheme can hardly be discharged effectively in the area of a State which refuses to be organically linked with the Central Bank of the country; secondly, the co-operative banking structure in the State will lose all the advantages we envisage from the close association, at different points, with the State Bank of India which we have provided for in the integrated scheme. Over and above all this, of course, is the overriding consideration that the sole custody of all Government balances—Central or State—must be regarded as an essential part of the functions of a Central Bank based on the model adopted for the Reserve Bank of India. One may recall here the evidence given before the Royal Commission on Indian Currency and Finance (1926) by one of the most eminent Governors of the Bank of England. Asked by the Commission what principles he would fight for as absolutely necessary from the beginning if he were starting a Central Bank, Mr Montagu Norman mentioned the 'custody of Government balances' as the 'most essential'.[1] The principle is embodied in the Reserve Bank of India Act, 1934. It is in operation for all Part A and Part C States. We have been unable to discover why—if indeed there was a reason other than inadvertence—the principle has not been made legally binding on Part B States when they came into the picture; for, with such provisions for transition as might be necessary, it could and should in our view have been made obligatory on these States as well. From every angle, we attach importance to its not being open to a State Government to refuse to appoint the Reserve Bank as its sole banker. We recommend amendment of law to that end, including, if necessary, amendment of the Constitution.

Reserve Bank and State Bank of India

12. Turning now to the Reserve Bank's status and functions *vis-a-vis* the State Bank of India, we would first of all point out that it will be necessary to amend section 19(2) of the Reserve Bank of India Act so as to enable the Reserve Bank to hold shares in the State Bank of India. We also suggest that it be statutorily provided that it shall not be open to the Reserve Bank to appoint any bank other than the State Bank of India as its agent for the maintenance and operation of currency chests. There should of course be a similar obligation on the State Bank to continue to be agent. At present, the individual agreements between the Reserve Bank on the one side and the Imperial Bank, the Hyderabad State Bank and the Bank of Mysore on the other are in each case terminable after a prescribed minimum of years on a notice being given in advance by either party. We consider that there should be no question of such termination, once the State Bank of India has been established. Provision should of course still exist for the periodical revision of any financial arrangements such as the commission payable on the turnover of Government business; but the basic relationship of agency should be provided for in perpetuity and under statutory provision.

Amendments

13. Briefly, therefore, two important legislative changes which we recommend are that it should be obligatory on all State Governments to appoint the Reserve Bank as their sole banker and that it should be obligatory on the Reserve Bank to appoint the State Bank of India as its sole agent. Besides, as we have said, it will be necessary to enable the Reserve Bank to become a shareholder of the State Bank of India.

[1] *Minutes of Evidence taken in London before the Royal Commission on Indian Currency and Finance* 1926, Vol. V, p. 259.

II. RECOMMENDATIONS RELATING TO ADMINISTRATIVE MATTERS ETC.

A. ARISING IN CONNEXION WITH THE STATE BANK OF INDIA AND ITS ESTABLISHMENT

Department of Banking Development

14. In regard to the administrative measures and effort which will be required in the process of establishment of the State Bank of India, we consider that the phased implementation of our recommendations in this respect should be entrusted to the Department of Banking Development which has during the last two or three years already done a great deal of preliminary work that has a bearing on what we have now recommended and which in fact, as described in an earlier chapter, has succeeded in bringing about what amounts to 'banking integration' between a number of Part B States and the Reserve Bank, through the appointment of the latter as the sole banker of the former, besides having been instrumental in imposing a certain degree of special control over such 'State' banks as have been appointed agents of the Reserve Bank. Also, this Department has been dealing with the 'developmental' aspect of the Imperial Bank, viz., the extension of its branches to rural areas in pursuance of the recommendations made in this respect by the Rural Banking Enquiry Committee. The functions of the Department, which are constantly growing with the Reserve Bank's increasing interest in rural problems—credit, banking, finance, savings, etc.—also include operation or co-ordination in respect of matters such as remittance facilities for the rural areas, labour legislation as it affects banks in the rural sector as well as elsewhere, finance for rural industries (as a category of medium and small industries) through state financial corporations, postal savings and the expansion and reorganization of the system from the rural as from other points of view, training facilities for the personnel of commercial banks, etc. We consider it a far-sighted step on the part of the Reserve Bank to have created a department for tackling these problems which are essentially those of rural regeneration and, from that angle, are complementary to those dealt with by the Agricultural Credit Department. We recommend that the Department of Banking Development should be enlarged and strengthened to the extent necessary not merely for carrying out all these and similar functions, but also for administratively co-ordinating, supervising and, generally, implementing firstly the phased establishment of the State Bank of India, and secondly the extremely important further programme of that bank in the directions envisaged, such as extension of branches into the interior, i.e., to the district headquarters and, beyond them, to the sub-divisional headquarters. There is, further, the question of training arrangements for the personnel (including that part of it which will hereafter be recruited) of the State Bank of India. The training has to be in (*a*) commercial banking under the Bankers' Training College about to be established and (*b*) co-operative banking under arrangements to be made by the Central Committee for Co-operative Training. We mention such training as another aspect of the total problem with which the Department of Banking Development (which has been dealing with the Bankers' Training College) will need to be closely associated. It will, in this matter, have to effect the necessary co-ordination between the State Bank of India, the Bankers' Training College and the Central Committee for Co-operative Training. Another and important item of co-ordination, of which the Department will have to be in charge, is one which we

envisage as eventually taking place on a country-wide scale and according to set plan, namely, the co-ordination between the State Bank of India as representing an important sector of commercial banking, and the co-operative credit structure as representing an important sector of co-operative activity. Indeed, the Department of Banking Development, speaking in terms of the Reserve Bank's organization, administratively bridges the gap between the Department of Banking Operations which is concerned with commercial banking, and the Agricultural Credit Department which is concerned with co-operative banking. Our recommendations in respect of the integrated scheme underline the continued need for such a department in the Reserve Bank. For this reason, and in the light of its existing 'rural' functions we have already mentioned, we recommend that the Department of Banking Development should be made a permanent feature of the Reserve Bank.

B. ARISING IN CONNEXION WITH THE DEVELOPMENT OF THE CO-OPERATIVE CREDIT STRUCTURE

Agricultural Credit Department

15. It is clear that, as a result of the developments which we contemplate, the Agricultural Credit Department of the Reserve Bank will have to be considerably expanded and reorganized. We have elsewhere pointed out the need for ensuring, so far as it lies within the power of the Reserve Bank, that the credit made available by it is in fact utilized for the purposes for which it is intended. This is all the more important because of the concessional rate at which the accommodation is made available by the Reserve Bank. But that is only one of the several points involved. What is contemplated by us is in fact a country-wide programme for the development of co-operative rural credit which is to be initiated and promoted by State Governments, but in which the Reserve Bank has a vital role to play not only in regard to finance and co-ordination, but also guidance and supervision. Firstly, this implies that the relevant organization of the Bank is manned by a personnel which is large enough, has adequate training and qualifications and, above all, is not lacking in the needed understanding and responsiveness in dealing with rural problems. Secondly, the programme implies closer and more constant contact between this organization and the State Governments. There will therefore have to be a certain degree of decentralization of the Agricultural Credit Department in the sense that branches of the Department will have to be established at least at those places where the Reserve Bank itself has branches or offices. We recommend that, as early as recruitment, training, etc., make this possible, branches of the Department should be gradually set up in Delhi, Calcutta, Madras, Bangalore and other suitable places. It is necessary that the officers in charge of these branches should be fully aware of the policies of the Bank and should be selected for these assignments in the States for their ability to collaborate with State Governments in their implementation of the policies. Inspection will be one of the important duties of these officers, but it should be inspection of a character to promote those policies and not such as consists in superfluous duplication of the type of audit and supervision which the Registrar of Co-operative Societies, the state co-operative banks, central co-operative banks, etc., should be well able to carry out themselves in their respective jurisdictions. Besides assessing the soundness of the credit institutions which are beneficiaries of the accommodation from the Reserve Bank, the investigation by the officer of the Agricultural Credit Department should

reveal the points at which and the manner in which the credit movement in the particular area, within the given framework of policy, needs to be reformed or strengthened so that the credit really reaches the medium and small cultivator and is utilized by him for the particular purpose intended; as also in what respects and ways it needs to be rationalized and made more efficient and adequate. Some of the important new duties which the organization will have to shoulder are those connected with the lines of development of co-operative economic activity which we have already indicated, viz., co-operative marketing, co-operative processing, etc. In regard to these aspects, the officer of the Agricultural Credit Department will have to acquaint himself fully with the policies of the Government of India and of the Reserve Bank, and provide in himself an effective liaison between the national policies in this regard and their implementation in particular States. The Standing Advisory Committee has already endorsed certain lines on which this 'higher' inspection should be conducted by the Agricultural Credit Department. We recommend that these lines, as well as the new lines necessitated by the adoption of the integrated scheme, should at the appropriate stage initially, and thereafter from time to time, be embodied in manuals and instructions issued by the head office of the Department in Bombay.

Selection and training of personnel

16. From what we have said above, it is clear that recruitment and training are two of the key considerations to be borne in mind in this process of expansion and reorganization of the Agricultural Credit Department. Proper selection, and the proper imparting of such training as may be needed in the individual case, are of course of paramount importance in relation to the higher officers, heads of divisions, etc., of the Department. The best possible people from all over India with qualifications in co-operative administration, co-operative banking, co-operative marketing, etc., together with the particular qualifications and experience necessitated by special lines such as land mortgage banking, should be selected to man the top posts of the Department. For these as well as for the existing officers and staff, and depending on the functions allotted to each, different courses of intensive training will have to be devised, partly within the Department and partly in the form of special courses (where necessary) in the co-operative training colleges, both all-India and regional, organized by the Central Committee for Co-operative Training.

We have already said that the Department should be considerably expanded and reorganized. We do not propose to enter into the details of the reorganization, but we hope that for the Chief Officer (and Additional Chief Officers, if any) at the head of the Department, will be selected one or more who combine in themselves experience, soundness and, above all, responsiveness. In the matter of co-operative training for example (which we consider might well justify a Chief Officer or Additional Chief Officer for itself), we recommend that an outstandingly suitable person should be selected to assist the Central Committee, to go round different States and to advise both the Committee and States on the manner in which further development should be organized in this regard.

Advisory bodies

17. We shall now briefly deal with the organization necessary for advising the Reserve Bank itself on these policies from time to time. We have already referred to the Standing Advisory Committee. This Committee consists of fourteen members including the Governor of the Reserve Bank who is the Chairman, and the Executive Director who is the Vice-Chairman. The Planning

Commission, the Food and Agriculture Ministry and three or four different States are represented on the Committee. The present personnel also includes some eminent economists and co-operators. In the enlarged context envisaged by us, it seems to us necessary that there should be two organizations, one wider than the existing one and constituted on a more representative basis, and the other smaller than the existing organization and designed to be specialized and expert rather than representative. Essentially, the former should be for reviewing policies at not too frequent intervals, and the latter for supervising their implementation and offering detailed advice at more frequent intervals. For the former purpose, we would recommend the formation of an Advisory Council which is representative of all or most of the States and, besides, includes economists, co-operators, etc. This Council should meet once a year, and may meet twice if necessary. We are suggesting elsewhere, but would point out here, that this Council might well be common to the activities of the Reserve Bank and those of the Government of India in its Food and Agriculture Ministry in connexion with the discharge of its own relevant functions as well as the wider and more important ones connected with the National Co-operative Development and Warehousing Board under it. In other words, there might be a common Advisory Council for the Food and Agriculture Ministry, the National Co-operative Development and Warehousing Board and the Reserve Bank. This will be the bigger body. The smaller body for the Reserve Bank might bear the same name as now in use, viz., the Standing Advisory Committee on Agricultural Credit, but its total strength might, we think, be with advantage much smaller. It may consist of representatives of the Reserve Bank, the Planning Commission and the Food and Agriculture Ministry together with two or three economists and non-official co-operators. The Committee could, for particular meetings, co-opt Registrars or other representatives from different States according as the agenda demands. This Committee should meet much oftener than does the Standing Advisory Committee at present. We recommend that the meetings should be held at least once every quarter.

Internal co-ordination

18. We have, in addition, certain suggestions to make regarding the co-ordination in the Reserve Bank between the Agricultural Credit Department, the Division of Rural Economics, and the Division of Statistics. These suggestions we reserve for a later chapter (Chapter 43) on the follow-up of the Survey and research in rural economics.

CHAPTER 34

THE STATE BANK OF INDIA: RECOMMENDATIONS AND SUGGESTIONS

Recommendations and suggestions

IN this chapter, our detailed 'recommendations' and 'suggestions' concerning the establishment and the future lines of development of the State Bank of India are set out in five different sections (the first section, in turn, being divided into four sub-sections), of which the arrangement is as follows:

- I. Integration: Financial, Legal and Legislative Matters
  1. Amalgamation
  2. Expansion of Share Capital
  3. State partnership
  4. Reconstitution
- II. Implementation: Administrative Matters
- III. Special Financial Provision for Integration and Development
- IV. Development and Co-ordination
- V. Training.

Each section or sub-section is divided into (A) Recommendations and (B) Suggestions, the former comprising the broad proposals we specifically recommend and the latter consisting of more detailed material in the nature of expansion, explanation or illustration of the recommendations, but not specifically forming part of the recommendations themselves. It is our belief—and the belief itself is based on as detailed a study of the problems involved as it was possible for us to conduct in the course of the Survey—that the 'suggestions' will be found to be no less valid and practicable than the 'recommendations' themselves. At the same time, we recognize the possibility that, for formulating decisions on these points of relative detail which are, nevertheless important, there may in some instances have to be taken into account data and particulars other than have come within the purview of our enquiry. These observations do not apply to the 'recommendations'; they are not only a fundamental part of the integrated scheme put forward by us but are proposals regarding the validity of which we are fully satisfied on the most adequate material.

I. INTEGRATION: FINANCIAL, LEGAL AND LEGISLATIVE MATTERS

1. AMALGAMATION

A. *Recommendations*

Amalgamation

2. (1) There should be established a STATE BANK OF INDIA by statutory amalgamation of the following:

(*a*) The Imperial Bank of India

(b) The following ten major State-associated banks:

(i) The State Bank of Saurashtra
(ii) The Bank of Patiala
(iii) The Bank of Bikaner
(iv) The Bank of Jaipur
(v) The Bank of Rajasthan
(vi) The Bank of Indore
(vii) The Bank of Baroda
(viii) The Bank of Mysore
(ix) The Hyderabad State Bank
(x) The Travancore Bank

(c) Certain small State-associated banks, such as the Sangli Bank, the Manipur State Bank, the Bank of Baghelkhand and the Mayurbhanj State Bank. (This list of small banks which are also State-associated banks is not final or exhaustive. We recommend that the Reserve Bank and the Government of India examine the suitability for the present purpose of these four banks, as also of any other small or minor State-associated banks located in the areas of the former Indian States.)

(2) The process of statutory integration -which may, for legislative purposes, be conceived as the enlargement of the Imperial Bank of India by amalgamation with it of the State-associated banks would not necessarily cease with the amalgamation of the particular banks here specified. For future extension of the process, as and when necessary and appropriate, and subject to notification by Government, the same statute should contain provision for similar compulsory amalgamation with the State Bank of India of suitable, relatively small commercial banks whose branches are so situated as to be complementary in point of area of operation to that of the State Bank.

We may recall here, in order to place the above recommendations and those which follow in their proper context, that their object is the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion (including further, but minor, amalgamation where necessary), can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for co-operative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank.

B. *Suggestions*

3. (1) The relevant process, as stated above, being conceived for legislative purposes as the enlargement of the Imperial Bank by amalgamation with certain other banks, what is primarily involved is the taking over by the Imperial Bank of the assets and liabilities of the other banks, and the issue to each individual shareholder of each of these other banks of shares of the State Bank of India by way of compensation for

his proportionate interest in the other bank, i.e., in the surplus of the assets of such bank over its outside liabilities.

(2) Before considering the details of the shares to be thus issued to the shareholders of the other banks, it will be convenient to examine the present structure of the Imperial Bank's share capital in relation to the voting rights attached to the shares.

The Imperial Bank has an authorized share capital of Rs 11.25 crores consisting of 2,25,000 shares of Rs 500 each. The whole of the authorized capital has been issued and subscribed. The paid-up capital of the bank, however, stands at Rs 5,62,50,000, i.e., at half the authorized capital, made up as follows:

	75,000	fully paid shares of Rs 500 each	..	Rs 3,75,00,000
	1,50,000	part-paid shares of Rs 125 (paid-up) each		Rs 1,87,50,000
Total ..	2,25,000	shares (fully or partly paid)	.. Total	Rs 5,62,50,000

The voting rights of the shareholders of the Imperial Bank are not, as it happens, proportionate to the contributions made by them to the paid-up capital of the bank. Regulation 30 of Schedule II of the Imperial Bank of India Act, 1920, reads as follows:

> "On a show of hands every shareholder present in person shall have one vote. On a poll every shareholder shall have one vote for every four shares of which he is the holder."

Thus, the total number of votes in the context of a poll is one-fourth of 2,25,000, i.e., 56,250; and, in the casting of these votes, the regulation quoted makes no distinction between the rights of holders of fully paid shares and those of holders of part-paid shares. The result is that two-thirds of the total number of votes vest in the hands of a group of persons (holders of part-paid shares) who have contributed only one-third of the paid-up capital, while one-third of the total number of votes vests in the remaining persons (holders of fully paid shares) who have contributed as much as two-thirds of the paid-up share capital. We are not here concerned with the historical background of this arrangement. Today, however, it must be regarded as beyond all doubt inequitable. The Rural Banking Enquiry Committee noted the unfairness of the arrangement. In paragraph 84(2) of their Report, the Committee drew attention not only to this anomalous feature but also to the still more anomalous fact that, in the Imperial Bank, this feature coexists with what cannot be denied to be the semi-public character of the institution. It was inevitable that they should recommend that the voting rights should be rendered proportionate to the contributions made by the shareholders towards the paid-up capital of the bank. The Committee pointed out that this was already obligatory on other banks under section 12(iii) of the Banking Companies Act, 1949. They were of course aware that the provision did not apply to banking companies incorporated before 15 January 1937, and that, in a legal sense, the Imperial Bank was one of the banking institutions which were not bound by this particular obligation. Nevertheless, in view of the semi-public character of the bank, the Rural Banking Enquiry Committee—inevitably as we have said—made the recommendation that the principle underlying the newer and more equitable provision should be

made applicable to the bank. The preliminary step we would urge is, therefore, the rectification of this anomaly. Our concrete suggestion is that, first, the 1,50,000 partly paid shares of Rs 125 (paid-up) each should be converted into an equal number of fully paid shares of Rs 125 each; that is to say, the holders of these shares may be absolved from the reserve liability on their holdings; at the same time the 'unit' face value of the shares of the bank may be Rs 125 instead of Rs 500. (The smaller face value is advantageous for various reasons connected with these recommendations.) Secondly, the 75,000 fully paid shares of Rs 500 each should, correspondingly, stand converted into 3,00,000 fully paid shares of Rs 125 each. The voting rights of the shareholders will thereafter be strictly proportionate to the amount of share capital actually paid-up.

(3) A suitable basis should be adopted for computing the 'compensation' which, in the form of shares of the new institution, is to be paid to the shareholders of the other banks. Beyond emphasizing that it should be simple and expeditious, and at the same time fair to the different parties to the transaction, we do not propose to make suggestions regarding the basis itself. Simplicity and expedition make it necessary that there should, as a rule, be no attempt at extensive and meticulous valuation of assets on the basis, e.g., of their 'real or exchangeable value'; the only exceptions to this would be (i) assets already classed as bad or doubtful, or assets already under investigation as to their full realizability, etc., and if necessary (ii) assets hereafter created, i.e., subsequent to a particular date which could be notified by Government. In regard to these, a machinery could be devised whereby the book value could be challenged by an authority representing the State Bank to be; the right to challenge should be allowed, not in respect of all assets falling within the two categories mentioned, but only of such of these as are above a prescribed value; provided further, that the alleged unrealizability is itself above a prescribed amount or a prescribed proportion of the value of the asset. The challenge would be considered by the bank to which the assets belong; if it accepts the suggested reduction in book value, the matter ends there; if it does not, the disagreement on the point will be referred to an appropriate authority appointed on behalf of Government and the Reserve Bank. It will be open to this authority either (*a*) to negotiate an agreement between both parties or (*b*) to guarantee the disputed margin on behalf of Government and the Reserve Bank, i.e., to guarantee payment by them of an amount which is either equal to, or is a proportion of, the amount, if any, which the State Bank is eventually unable to realize out of the asset under dispute. In lieu of such guarantees in respect of disputed assets of a particular description or in addition to such guarantees, it should also be open to Government and the Reserve Bank to give more general guarantees of the same nature in order to reduce the area of possible dispute and delay arising out of these matters. Arrangements for payments which may materialize as a result of such guarantees will be indicated later in this chapter.

The total quantum of compensation in respect of each of the banks amalgamating with the Imperial Bank will have been arrived at in the manner broadly indicated in the preceding sub-paragraph. Thereafter the working out of the 'compensatable value' of an individual share of each such bank is merely a matter of arithmetic. This value or amount has then to be expressed in terms of the shares of the new institution. These may be called 'new compensatory shares' partly to distinguish them from the older shares of the Imperial Bank and partly to indicate that they are compensatory in character. Briefly, the basis of this further conversion of the compensatory amount into

' new compensatory shares' would be the ratio, for identical face values, between the 'compensatable value' of a share of the State-associated bank and the market value of an Imperial Bank share.

The new compensatory shares have of course to be in units of face value. We have suggested Rs 125 as such unit; this will make it easier for even the smaller investors in the State-associated banks to get units of fully paid shares. This may not happen in all cases. On the basis suggested, some will be entitled to a fraction of a share; others will be entitled to a fraction of a share over and above one or more units of shares. For all such fractions, the compensation can only be in cash. This may be provided for in the enactment.

We have mentioned, as basis of conversion for purposes of compensation, the ratio, for identical face values, between the 'compensatable value' of the share of a State-associated bank and the market value of a share of the Imperial Bank. This ratio will of course be different for different State-associated banks. For certain purposes, however, connected with the further suggestions regarding structure of share capital etc., which we have to offer, as also for a rough estimate of financial implications, it is necessary to assume, for all the State-associated banks taken together, a ratio which is likely to be near enough to the eventual ratio when that is worked out after necessary investigation and in necessary detail. As sufficiently approximate for these purposes, but without attempting either finality or exactness, we shall assume this average ratio to be the simple one of 3 : 11. We shall further assume, what on the data in our possession seems reasonable, namely, that the total quantum of compensation- i.e., total of all individual compensatable values—is likely to be of much the same order as the total of the paid-up capital and reserves of all the State-associated banks together (about Rs 10 crores, of which Rs 4 crores, according to available information, pertain to State Governments). On the two assumptions mentioned, the State Bank will have to issue ' new compensatory shares' of the total face value of about Rs 2.73 crores. Each share being of the face value of Rs 125, the total number of ' new compensatory shares' to be issued will be about 2,18,400. Out of these, the shares allottable to certain State Governments against the shares they own in the relevant State-associated banks will together be of the face value of about Rs 1 crore; and those to be allotted to the private shareholders will be of the face value of about Rs 1.73 crores. As regards the former, i.e., new compensatory shares which would be ordinarily allotted to the State Governments concerned, we suggest that the Government of India take over these shares on payment of the corresponding value to the State Governments. The result will be that the paid-up capital of the Imperial Bank (after amalgamation) will increase to Rs 8.35 crores (Rs 5.62 crores plus Rs 2.73 crores), out of which Rs 7.35 crores will remain in private hands and Rs 1 crore will go to the Central Government. All this will be fully paid up. As against it, the present authorized share capital of the Imperial Bank, it will be recalled, is Rs 11.25 crores.

2. EXPANSION OF SHARE CAPITAL

A. *Recommendation*

Increase of share capital

4. In view, among other things, of the much larger programme of branch extension which the new institution is intended to carry out, we recommend that the authorized share capital be adequately increased.

B. *Suggestions*

5. We suggest that the share capital be increased from the present Rs 11.25 crores to Rs 20 crores. We also suggest that additional fully paid shares to the extent of Rs 7 crores be issued by the new institution, thus—in the context of the suggestions made in the previous sub-section—bringing the paid-up capital to Rs 15.35 crores (Rs 8.35 crores plus Rs 7 crores, against an authorized capital of Rs 20 crores). The number of 'new additional shares' (as distinguished from new compensatory shares) to be thus issued will be 5,60,000.

3. STATE PARTNERSHIP

A. *Recommendations*

Shareholding of Government and Reserve Bank

6. (1) We recommend that, simultaneously with the amalgamation and the expansion of share capital already recommended, the Government of India and the Reserve Bank take up shares in the reorganized institution—largely by being allotted new shares and partly (as already suggested) by acquisition of the old shares held by State Governments in some of the amalgamating institutions—of an order that will ensure (for the Central Government and the Reserve Bank together) a voting power of not less than 51 per cent.

(2) The new shares allotted to Government and the Reserve Bank should be non-transferable and the dividend payable on them should be one which is statutorily limited. This special category of shares should be issued *at par* to Government and the Reserve Bank.

B. *Suggestions*

7. Pursuing our previous suggestion in the light of the recommendations in this sub-section, we propose that the 'new additional shares' numbering 5,60,000 be constituted into a separate series, viz., 'B' series, the original shares (including the new compensatory shares) being renamed 'A' series. The 'B' shares would be allotted exclusively to the Government of India and the Reserve Bank and would not be transferable to other parties. We suggest that any future issues of 'A' and 'B' shares should be subject to the same proportion and (as regards the latter) the same conditions as now imposed. One of these conditions, as recommended above, would be the limitation on dividend. We suggest that the statutory limit placed on the 'B' shares be expressed as 'a maximum of 5 per cent'; i.e., the dividend on a 'B' share may in certain years, if so decided, be even less than 5 per cent. In view of the restriction on transferability and limitation on dividend, the 'new additional shares' would, as stated in the recommendations, be allotted *at par* to the Government of India and the Reserve Bank. We suggest that, out of the issue of new additional shares of the total value of Rs 7 crores, shares of the value of Rs 4 crores be allotted to the Central Government and of Rs 3 crores to the Reserve Bank. The net position will then be that, in the State Bank of India, the Government of India will hold 'A' shares of approximately Rs 1 crore and 'B' shares of Rs 4 crores, i.e., of Rs 5 crores in all; the Reserve Bank of India will hold 'B' shares of Rs. 3 crores; together, Government and the Reserve Bank will hold Rs 8 crores; and the other shareholders will together hold 'A' shares of Rs 7.35 crores. All the shares will be fully

paid-up; the number of shares in the possession of the Government of India and the Reserve Bank will together be 6,40,000 and those in the possession of private shareholders will together be 5,88,000, the percentages of votes held being 52 and 48 respectively.

4. RECONSTITUTION

A. *Recommendations*

Reconstitution of Central and Local Boards

8. (1) We recommend that the Government of India and the Reserve Bank together nominate the majority of directors on the Central Board of the State Bank of India. The Chairman should be appointed by the Government of India after consultation with the Board. The Managing Director and the Deputy Managing Director should be appointed by the Board with the approval of Government; the removal of either of them should be subject to the same condition.

(2) We recommend that the Local Boards (in the form constituted under the Imperial Bank) be converted into Local Committees of which the Chairman and a majority of the members should be nominated by the Central Board. New Local Committees should be constituted for some of the areas now served by two or more of the amalgamating banks other than the Imperial Bank.

B. *Suggestions*

9. In view of the Government and the Reserve Bank together becoming the major partners in the institution, several changes will be necessary in the present constitution of the Imperial Bank. Hence the above recommendations, which we supplement by the following suggestions:

(1) (*a*) The Central Board of the State Bank of India may have sixteen directors, elected, nominated or appointed as follows:

(i) Chairman (to be appointed by the Government of India after consultation with the Board, as recommended above).

(ii) Six Directors: to be nominated by the Government of India.

(iii) One Director : to be nominated by the Reserve Bank of India.

(iv) Six Directors: to be elected—one each for the six areas mentioned below—by the shareholders concerned.

(v) Managing Director: *ex officio* (to be appointed by the Central Board with the approval of Government, as recommended above).

(vi) Deputy Managing Director (or, if there is more than one Deputy, the seniormost among them): *ex officio* (to be appointed by the Central Board with the approval of Government, as recommended above).

Of these, the Deputy Managing Director should not have the power to vote.

(*b*) We have recommended that the Chairman should be appointed by the Government of India after consultation with the Board. (Such consultation will of course not be possible for the first appointment.) We consider that the Chairman should be a non-official. In view of the key importance of this assignment, we would stress the desirability

of selecting, from among those available, a non-official of the most outstanding eminence as well as of the most outstanding suitability for this purpose. We suggest that the appointment should not be whole-time.

(2) (*a*) We suggest that the Local Committees (recommended to take the place of Local Boards) should have broadly the same executive powers (as regards staff, business, etc.) as the Local Boards of the Imperial Bank have at present. We further suggest that there might be six Local Committees (converted and new together), one for each of six conveniently divided areas covering the whole country. For three of these areas, the centres would be Madras, Bombay and Calcutta. For the other areas, suitable head-quarters should be selected after taking into account not only the present distribution of the branches of the Imperial Bank and the State-associated banks, but also the probable future pattern of the branch extension of the State Bank of India.

(*b*) Each Local Committee, we suggest, should consist of seven members as follows:

(i) the elected Director from the area;

(ii) four members to be nominated by the Central Board;

(iii) one member to be nominated by the Reserve Bank; and

(iv) the seniormost executive officer of the State Bank of India in the area (*ex officio*).

(*c*) We further suggest that the Chairman of the Local Committee be nominated by the Central Board from among the members of the Committee.

(*d*) It is suggested that, in exercising its power of nomination, the Central Board should, as far as possible, ensure adequate and reasonable representation of agricultural and co-operative interests, besides commercial, industrial and other interests. We are of the view that no official of a State Government should be nominated on the Local Committee.

(3) (*a*) We suggest that a share register, on the basis of residence be maintained by each of the six regional offices. This will facilitate transfers and transmissions of shares and provide the needed framework for the election of Directors to the Central Board.

(*b*) Since it will not be possible to make these arrangements for the first Central Board, that Board will have to be wholly nominated by the Government of India. The life of the first Board may perhaps be limited to two years.

II. IMPLEMENTATION: ADMINISTRATIVE MATTERS

A. *Recommendation*

Legislative and administrative action

10. We recommend that the earliest possible decision and action, both legislative and administrative, be taken on the proposed integration.

B. *Suggestions*

11. We suggest that administrative arrangements commence at the earliest possible moment after decision and while the legislative measure is under formulation. For this purpose, we envisage close administrative co-ordination between the Reserve Bank on the one hand and the Imperial Bank and the other State-associated banks on the other. We suggest that, on the part of the Reserve Bank, the Department of Banking Development

snould be entrusted with this task and that one or more small committees representative of the Imperial Bank and the other banks should be constituted for collaborating with the Department of Banking Development in the formulation and expeditious carrying out of the necessary executive and other action, including the devising of a scheme for the initial dovetailing of personnel, and the fitting together—not necessarily or desirably the rendering uniform—of pay-scales etc. Eventually, of course, as new personnel is recruited year after year and over a period replaces the old, there will be one homogeneous set of service cadres and one set of service conditions. But that will take a long time to materialize. Meanwhile, a number of complicated problems of pay and personnel—but not more complicated than have arisen in connexion with political integration—will have to be investigated and solutions will have to be found for them by the co-ordinating organization we have mentioned. One main principle to be observed would be that no permanent—or virtually permanent employee of any of the banks should have his services terminated as a result of the amalgamation. Another principle should be that no temporary employee who has more than a prescribed number of years to his service should be sent out, if indeed that contingency arises, without reasonable compensation. Indeed, the new work to be undertaken will be of so great a magnitude that we believe the need will be for increasing and not reducing the personnel. The desirability may well arise, for example, of getting back experienced officers who have retired in the recent past, especially those who have retired from the Imperial Bank. Standards of qualifications etc., will of course differ for personnel of different banks; so will standards of responsibility and of pay, and some of the problems will be connected with identical designations which carry different responsibilities and identical responsibilities which carry different pay-scales. But all these are transitional difficulties which have arisen elsewhere in transitional India and for which more or less successful remedies have, after trial and error, been found by different Governments and institutions. There is, therefore, a large fund of recent and analogous experience of which use can be made. Compensation for the discharged personnel, if any, and additional expenditure on the upgrading—within reasonable and strictly defined limits—of the pay-scales of certain categories of personnel of some of the banks, other than the Imperial Bank, is a liability which, in our opinion, should be met at least in part, for a prescribed number of years, by the Central Government and the Reserve Bank. We indicate elsewhere a suitable financial arrangement which will cover this as well as one or two other similar contexts.

The special administrative arrangements should, we suggest, be so pursued as to settle all the transitional problems within one year of the completion of legal amalgamation.

III. SPECIAL FINANCIAL PROVISION FOR INTEGRATION AND DEVELOPMENT

A. *Recommendation*

Integration and Development Fund

12. We recommend that an 'Integration and Development Fund' be instituted within the State Bank of India. To this Fund should be diverted the dividends earned by Government and the Reserve Bank on their shares in the institution. An initial contribution of Rs 50 lakhs in all should be made to the Fund by Government and the Reserve Bank as also subsequent *ad hoc* contributions as and when necessary. The main purpose of the Fund

is to meet, when necessity arises, the net additional cost to the State Bank involved in opening, in pursuance of State policy, such branches as may initially be unremunerative. Other and minor purposes of the Fund are to meet, in part and for a transitional period, some of the additional items of expenditure incidental to the amalgamation.

B. *Suggestions*

13. At two places in the preceding sections, we have said that we would suggest certain arrangements for the effective transference to the Government of India and the Reserve Bank, partly or wholly, of specific categories of financial liabilities, arising from integration, which would otherwise fall on the State Bank of India. Those we have hitherto mentioned are (i) liabilities which might eventually materialize in respect of specified classes of assets of the other banks taken over by the Imperial Bank on the strength of certain assurances and guarantees given on behalf of Government and the Reserve Bank and (ii) liabilities in respect of (*a*) compensation to staff, if any, discharged on account of integration or (*b*) the upgrading of pay in certain cases. To these must now be added the third and most important item: one which arises not from the process of integration, but from the plan of banking development which, from our point of view, is the major purpose of the integration and which, even in the context of the more comprehensive reasons which justify it, must always remain one of the main purposes of the integration. This plan of banking development will mean in effect the undertaking of a progressively larger and speedier programme of branch extension by the State Bank of India; one which, for the first five years after its establishment in any case and possibly for a longer period, will have to be as large and as speedy as the State Bank, after such increase in its personnel as necessary, finds it administratively feasible to carry out. Further, the branch extension should take place in accordance with planned priorities fixed in consultation with the Reserve Bank. This extension, as we have already indicated, should go beyond district headquarters to at least 'sub-divisional' centres.[1] We believe that, in the context of country-wide economic development, such expansion will eventually more than pay for itself: initially, however, there may be a certain amount of loss on some of the branches. We suggest that all losses on account of branch extension undertaken in accordance with the plan and priorities laid down by the Reserve Bank should, above an agreed or prescribed level of the aggregate loss, be regarded as the liability of Government and the Reserve Bank, along with the two types of liability already mentioned. The prescribed level above which alone the loss would be so regarded should be related (and worked out in terms of the State Bank) to the particular level of loss which is already implicit in the existing programmes of branch expansion of the different institutions involved.

In the arrangement recommended, the annual dividends payable to the Central Government (on its 'A' and 'B' shares) and to the Reserve Bank (on its 'B' shares) would, instead of being so paid, be credited each year to the 'Integration and Development Fund' recommended to be instituted within the State Bank. Since the annual amount funded is likely to be of the order of Rs 50 lakhs, this should, even after provision has been made for other liabilities if any, enable a much wider and speedier programme of branch extension on the part of the State Bank than it has so far been possible for the Imperial Bank to undertake. If at any time the 'Integration and Development Fund' is unable fully

[1] The term 'sub-divisional' is used in the sense explained in Chapter 28 (p. 355).

to meet the three types of charges debitable to it, further *ad hoc* contributions (besides the annual contributions) would, as envisaged in the recommendation, be made to it by the Central Government and the Reserve Bank, who would also make an initial contribution of Rs 50 lakhs to the Fund. We suggest that the initial and *ad hoc* contributions made by Government should bear to those made by the Reserve Bank the same ratio as the total dividend payable to it bears to that payable to the Reserve Bank.

The three types of liabilities against the 'Integration and Development Fund' may be expressed in more precise language as follows:

(*a*) a part or the whole of the loss, if any, incurred in the realization of specified assets or classes of assets (e.g., loans) among those taken over from the State-associated banks at the time of integration, provided liability for them has been assumed by the Government of India and the Reserve Bank in the specified manner;

(*b*) a part or the whole, as specified, of the additional expenditure, for each year over a prescribed period of years, incurred on any upgrading of the pay-scales of the staff of the State-associated banks necessitated in the process of the transfer of such staff to the integrated institution; and

(*c*) a specified part of the loss, for prescribed periods, on branches opened at the direction of the Reserve Bank.

IV. DEVELOPMENT AND CO-ORDINATION

A. *Recommendation*

Branch extension and co-ordination

14. There should be no interference by the State in the day-to-day operations of the State Bank of India. Nor of course should there be any lowering of the standards of sound banking. For its part, the State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit and, *especially, marketing and processing*. (It is of course the Reserve Bank, primarily, which will continue to lend to state co-operative banks and through them to central co-operative banks etc.) The branch extension of the State Bank of India should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities. Particular attention to this aspect should be given at the sub-divisional level, especially in those States in which the co-operative movement is relatively undeveloped.

B. *Suggestions*

15. (1) As we have elsewhere indicated, the programme of branch extension should cover, in as short a period as possible, the more than 100 district headquarters which today have non-banking treasuries, and the more than 300 sub-divisional centres where at present there are non-banking sub-treasuries. The much larger number of other non-banking sub-treasuries may be left out of consideration at this stage. It is possible that experience will show that one sub-divisional banking currency chest for 5 talukas on an average will, after suitable reforms have been effected in procedure, serve to provide reasonably effective remittance and other facilities for all the other sub-treasuries in the area; currency chests could be withdrawn from these other sub-treasuries, if necessary,

or the balances in them reduced substantially below their present limits, since frequent physical transfer of funds from the nearby sub-divisional centre ought to be feasible. It is also possible that the provision of sub-divisional banking currency chests on this scale of one for five talukas might be fairly adequate for providing cheap and ready remittance facilities to existing commercial and co-operative banks, if any, in the area, and what is potentially more important, for stimulating the establishment of new banks, especially co-operative banks, in the area. All this, as we have said, will be clear only from experience. As regards still further extension, therefore, the position may be reviewed after five years. Meanwhile, the programme we have recommended will suffice to engage the maximum attention, and will undoubtedly call for the most determined effort, on the part of the State Bank of India.

(2) Not less important than branch extension itself is the planning of effective co-ordination at the sub-divisional centres between the State Bank of India and the co-operative banking system of each State. A vast opportunity for such co-ordination will present itself and, if it is fully and determinedly availed of, the potentialities for the development and extension of co-operative banking in the country are indeed of the greatest significance. It will be recalled that we have proposed direct or indirect State partnership (of not less than 51 per cent so far as share capital is concerned) in the co-operative banks, both apex and central. On the basis of such partnership and in the context of various new facilities from the Reserve Bank, including loans to State Governments for participation in share capital, we envisage in each of the many States where it is needed a large and determined programme of expansion whereby, eventually, State-partnered co-operative credit institutions extend to the district headquarters, to the sub-divisional and taluka levels, and to the groups of villages comprising the jurisdiction of the larger-sized primary society. Even in the earlier phases of this development, therefore, there is envisaged at each district headquarters either a branch of the State-partnered state co-operative bank or a State-partnered central co-operative bank. In order that there may be effective linking even at that stage with the societies at the primary level, it is necessary that the co-operative financing agency should have branches at some intermediate level between village and district headquarters. Such branch expansion of co-operative banks has already taken place in many districts in co-operatively well-developed States; and the branches have reached down not only to the sub-divisional level, but to taluka centres etc., below. For less developed States and areas, we suggest that such branches should, by a concerted programme, be sought to be established at least at sub-divisional centres to start with, and thereafter at other suitable places (e.g., taluka headquarters); the State Bank itself can simultaneously expand to these centres; and the two lines of expansion can be co-ordinated by the Reserve Bank of India. To facilitate such expansion on the part of the co-operatives, we further suggest that, in its own building plans for its sub-divisional headquarters, the State Bank of India should, if so desired, make provision for accommodating the branch of the State-partnered central co-operative bank of the district or (as the case may be) of the State-partnered apex co-operative bank. Reasonable rent might of course be charged. But what is even more important than providing accommodation in its building is the further step we proceed to suggest, namely, that the State Bank of India should act at such sub-divisional places as the banker of the State-partnered co-operative bank (wherever such an arrangement is convenient to the co-operative institution concerned), just as it is, at these as well as at other places, the banker of the State Government itself.

This arrangement, which we consider to be extremely important from several points of view, needs to be elaborated. Accordingly, we give below our detailed suggestions in regard to the principles and procedure we envisage for adoption by the State Bank of India *vis-a-vis* the branch of the co-operative bank, as also other banks in the area and the State Government itself:

(i) Since, at the sub-divisional centre, the State Bank of India will take over the conduct of Government cash work and be in charge of the Reserve Bank's currency chest, it will be well equipped to provide adequate remittance and exchange facilities to local banks and the public, besides the corresponding facilities to Government. It should, in addition, provide safe custody facilities (e.g., for the deposit of iron chests or safes) to local banks, and design its 'strong room' so as to be able to do this. It will conduct its own normal commercial banking business at the centre; and, in doing so, it will no doubt ensure (since that is normally the case even at present as pointedly mentioned by the Rural Banking Enquiry Committee) that there is no scope for any legitimate complaint that it is competing with the other banks, if any, already established at such centres. The main aim should be to cover the large gap which exists at practically all these places in the provision of banking, remittance and similar facilities.

(ii) The branch of the State-partnered central (or, as the case may be, apex) co-operative bank will ordinarily be operating (as proposed above) in the same building as the branch of the State Bank of India. The branch of the co-operative bank should open a current account with the State Bank. All payments from and receipts into the account will be effected by the State Bank in the same way as it handles this type of work for its other customers. The State Bank will honour cheques or authorizations drawn or made by the branch of the co-operative bank and also accept cash, cheques, dividend warrants, etc., for the cooperative bank. It will also provide remittance and other services, e.g., collection of bills, safe custody of valuables, etc.

(iii) In order to ensure the smooth and proper working of such an arrangement, the State Bank will be appointed the sole banker for the branches of central (or apex) co-operative banks at the sub-divisional centres concerned.

(iv) At the end of each working day or on the following working day, the State Bank will forward a statement of account to the branch of the co-operative bank setting out details of the transactions recorded in the relevant account. The daily statement will take the place of the pass book. This will enable the branch of the co-operative bank to write up its accounts and maintain its books up to date.

(v) Since the cash work will be handled by the State Bank, it should not be necessary for the branch of the central (or apex) co-operative bank to carry a large cash balance on hand. It will suffice if it holds petty cash to the extent of, say, Rs 50 or Rs 100 on an imprest basis to meet petty expenses. An important point is that the branch of the co-operative bank can make appreciable saving in staff (e.g., it need not employ a separate cashier), while at the same time perfect physical security of funds and proper maintenance of accounts is assured.

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(vi) The State Bank of India should be reimbursed the cost of servicing the account. One way of doing this would be for the branch of the co-operative bank to maintain the requisite balance in the account, i.e., a balance which the State Bank considers to be sufficient to cover the cost of maintaining the account, having regard to the volume of work involved. Alternatively, if it is desired to avoid the locking up of funds which that might to some extent involve, the central (or apex) co-operative bank should maintain a minimum balance calculated on the basis of its own requirements and remunerate the State Bank on some other basis, e.g., cost per ledger page or commission at an agreed rate on the half-yearly turnover (total of debits and credits) in the account. This, however, is a matter which may be left to be settled between the State Bank and the co-operative bank concerned.

(vii) To sum up, our suggestions in this context imply that the relationship between the State Bank of India and the central (or apex) co-operative bank will be that of banker and customer. The co-operative bank will be a customer of the State Bank and the rights and obligations of the two parties will be determined on that basis.

(3) One important set of suggestions remains to be made in this context. It concerns the present arrangements for the investment of the funds of local bodies and quasi-Government institutions and the need for alteration in those arrangements in order to co-ordinate them with the new development envisaged in the country's banking system. This development has the important twofold aspect that (i) there will come into existence, with the minimum delay, an India-wide commercial banking institution of which the State is the major partner and (ii) there will also come into existence, progressively and not all at once, but nevertheless within as short a period as practicable and in each State, a series of co-operative banking institutions of which also, at the sub-divisional level upwards, the State will be the major partner. Together, these institutions will cover the whole country, including the rural areas. All Government funds as such, i.e., as distinguished from those of local bodies and quasi-Government institutions, are of course—so far as the Government of India and most of the State Governments are concerned—deposited (with certain minor exceptions such as the 'till money' at Government treasuries) with the Reserve Bank: either direct, or through its agents, viz., principally, the Imperial Bank. Other relevant funds, such as those of the local bodies and other institutions mentioned—including state financial corporations and similar semi-Government institutions—would not of course need to be kept with the Reserve Bank; commercial banks like the Imperial Bank, or co-operative banks of standing and stability, would be more convenient and appropriate. The fact however remains that, at present, these funds are not always required to be deposited in one particular bank and in no other, as is perhaps only understandable in the present circumstances, of which the most important features are that the Imperial Bank is not yet a State bank, and most co-operative banks, especially at the district level, are neither State-partnered nor strong. All this will change if our proposals are accepted and implemented. When that begins to happen, it is clearly both proper and necessary that the State-partnered banks should be the repositories of the funds of local bodies, as well as of institutions which are semi-Government, quasi-Government, Government-aided and so on. It should be quite easy to evolve a working principle as to the type of funds which it should be made obligatory

to deposit with the State Bank of India and those which should be required to be kept with a State-partnered co-operative bank, if there is one in the locality. Thus all the bigger municipalities, such as borough municipalities, corporations, etc., might be asked to bank with the State Bank of India (as in fact they generally do with the Imperial Bank under the existing rules), while the smaller municipalities, district local boards, etc., might be asked to bank with the local State-partnered co-operative bank, if any. Somewhat similar considerations might be adopted for institutions which are semi-Government, quasi-Government, Government-aided, etc., the criteria in their case being related partly to size of funds and partly to locale of institutions, e.g., those in the bigger towns and cities being asked to maintain their funds with the State Bank and the others required to deal with the State-partnered co-operative banks. Since the former will come into being earlier, and the latter only progressively and over a series of years, there will be a fairly long transitional period. During this period, all the types of funds we have referred to should, in our opinion, be required to be kept with the State Bank of India, except of course where it does not have a branch. Later, as one State-partnered co-operative bank after another is established, the appropriate deposits could be transferred to each such institution from the concerned branch of the State Bank of India.

V. TRAINING

A. *Recommendation*

Training

16. Special training arrangements should be made for the personnel of the State Bank of India. As part of this training, some knowledge should be imparted of the aims and methods of Co-operation and co-operative banking. Besides, there should, wherever suitable, be arrangements for the positive association of the personnel with the boards of co-operative credit institutions.

B. *Suggestions*

17. (1) It will be necessary, at as early a stage of the integration as possible, so to make arrangements for the training of the personnel of the different banks which will constitute the State Bank of India as to fit them within a short time for duties which, in many cases, will be in a wider sphere, of a higher responsibility, and of a different type. We recommend that the fullest use should be made, for this purpose, of the training facilities which will be available in the Bankers' Training College about to be established by the Reserve Bank, and that such special courses as necessary be organized for this staff in that College.

(2) One of the important objects of the proposed establishment of the State Bank of India is that an influential sector of commercial banking shall be so re-constituted and re-fashioned as (among other things) to be knowledgeable and responsive in regard to the needs of co-operative institutions such as banks and, *especially, marketing and processing societies.* We suggest, in pursuance of the recommendation already made, that those officers of the State Bank of India who are likely to be posted as agents at district headquarters and similar places, and indeed the officers of the State Bank generally, should receive training for short periods at the All-India Co-operative

Training Centre. We have elsewhere recommended that those in charge of co-operative banks should receive similar training in commercial banking.

(3) We would also suggest, in pursuance of the recommendation made above, that, in so far as State-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank of India should invariably be nominated as one of the members of the board of the particular central co-operative bank. He should not have the power to vote, but should in all other respects function as a member of the board. We attach importance to such an arrangement as a practicable and promising way of ensuring close co-ordination between the working policies and practices of the State Bank of India and those of the co-operative credit structure, to the benefit, we trust, of both. We regard this process of 'cross-fertilization' as one of the means by which the technical quality of co-operative banking can be assimilated to the higher standards in this respect which obtain in commercial banking.

CHAPTER 35

THE NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD AND ITS AUXILIARIES: RECOMMENDATIONS

Funds and functions

WE turn now to another important item of our recommendations, viz., the establishment of a National Co-operative Development and Warehousing Board, with two distinct Funds under its control—the National Co-operative Development Fund and the National Warehousing Development Fund—and with two distinct functions corresponding to the Funds.

The first of these functions may be described as the planning and co-ordination (and the financing in part) of a country-wide plan for the development, at and above the rural base, of State-cum-co-operative economic activity. The plan itself will consist of individual programmes for different States which will be drawn up in conjunction with the Governments of those States. It is of course the State Governments, to whose sphere this directly pertains, that will be responsible for the fulfilment of the programmes through their co-operative departments and institutions. The responsibilities of the Board will therefore be confined to planning and initiating action, co-ordinating it and, to the extent necessary, financing it and otherwise supporting it. The development to be thus promoted will be principally in respect of co-operative processing and co-operative marketing; but all other co-operative activities of an economic character, whether directly related to production (agricultural or non-agricultural) or important as stages leading to or following production, will also fall within the ambit of this function of the Board.

In the discharge of the second function, namely, the planning, co-ordination and implementing of a country-wide programme for the development of the storage and warehousing of agricultural (and ancillary) commodities and, along with and through such development, the country-wide organization of a distributive machinery for reaching out to the agriculturist the basic goods he needs as producer and consumer, the Board will act, according to our conception, through the correlated operative agency of an All-India Warehousing Corporation, State Warehousing Companies and the appropriate co-operative organizations.

It will be recalled that two of the main lines of development we have in view as basic to the integrated scheme itself are the extension of co-operative credit and the extension of co-operative economic activity; and, as earlier explained, these two should in our opinion be broadly divided, in point of responsibility at the all-India level of planning, co-ordination and finance, between the Reserve Bank on the one hand, and on the other the Government of India in its Ministry of Food and Agriculture. It seems to us obvious that the Reserve Bank should take upon itself the task of further extension of co-operative credit on the lines on which it has already been proceeding in the last few years, and that the Central Govern-

ment should assume responsibility for the co-ordinated progress of the important items of warehousing and distribution (including, but going beyond, the co-operative sector in regard to these two) and of other economic activities in the rural area, such as processing and marketing (in the co-operative sector alone so far as these are concerned). In this manner, the State through two of its most powerful instruments will have set in motion those forces of real significance for the rural economy which alone, we believe, can effectively summon the enthusiasm of the cultivator and marshal his awakened effort for the economic development of rural India. Due attention must of course be paid to the need for co-ordination between these two main lines of development, viz., credit and economic activity, for one is organically dependent on the other, as well as for their further co-ordination with the arrangements for training which are also an essential part of the integrated scheme which is put forward in this Report.

The pattern of the financial allocation recommended, of which further details will be subsequently given, may be briefly indicated here. The Government of India should set apart an annual sum of not less than Rs 6 crores. This should consist of two distinct provisions: a minimum of Rs 1 crore for the National Agricultural Credit (Relief and Guarantee) Fund and of Rs 5 crores for being divided between the National Co-operative Development Fund and the National Warehousing Development Fund. (These arrangements should be reviewed after five years.) The Warehousing Development Fund should in addition receive an initial non-recurring allotment of Rs 5 crores from the Government of India. The functions of the Ministry of Food and Agriculture in the context of the administration of the National Agricultural Credit (Relief and Guarantee) Fund will be dealt with in Chapter 40.

I. NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD

General (composition etc.)

2. We have already indicated the scope we envisage for the functions of the National Co-operative Development and Warehousing Board. We would recall that in Chapter 33, which deals with the Reserve Bank, we have recommended that this Board, in common with the Reserve Bank, have an Advisory Council, which will meet at least once a year and which, as far as practicable, will be representative of the co-operative and other interests concerned, as well as of the different State Governments in India.

The National Co-operative Development and Warehousing Board and the All-India Warehousing Corporation should be established by statute; and the same statute should provide for the formation of State Warehousing Companies. We recommend that the Board should have the following composition:

1.	Minister for Food and Agriculture	Chairman
2.	Secretary of the Food and Agriculture Ministry	Vice-Chairman
3.	Representative of the Planning Commission	Member
4.	Representative of the Finance Ministry (Department of Economic Affairs)	,,
5.	Representative of the Railway Board	,,

6.	Consulting Engineer (Road Development) to the Government of India, Ministry of Transport	Member
7.	Chairman, Forward Markets Commission	,,
8.	Representative of Reserve Bank (top executive in charge of rural credit in the Bank)	,,
9.	Representative of the State Bank of India	,,
10.	One economist	,,
11 and 12.	Two co-operators	,,
13 and 14.	Two other non-officials	,,

The co-operators and the economist should be selected for their eminence in their particular line and (this applies to the non-officials also) should, if possible, possess outstanding familiarity with the problems of the rural economy of India.

It is necessary that the Board should have a Standing Committee which is in a position to meet fairly often for formulation of subsidiary policies, for taking executive and financial decisions, and for reviewing and supervising the implementation of policies and plans. We recommend that the Standing Committee should consist of the following:

1. Secretary of the Food and Agriculture Ministry: Chairman.
2. Representative of the Reserve Bank.
3. One member to be selected from among numbers 10 to 14 of the Board, viz, economist, co-operators and non-officials.
4. One other member.

It is obvious that the Secretary of the Food and Agriculture Ministry, as Chairman of the Standing Committee, will have functions to discharge of a most important kind, and that the work involved as well as the attention required will be such as to leave him little time for all except the most important of his normal duties. We therefore recommend that he should be relieved, as far as possible, of these other duties by the appointment under him of an Additional Secretary who will look to the normal work of the Ministry.

Functions and objects

3. Adverting to the functions and objects of the Board in somewhat greater detail, we recommend that these be as follows:

(i) (*a*) To promote the planned development, throughout the country, of the co-operative processing and marketing of agricultural commodities including commodities ancillary to agriculture or otherwise of importance to the rural economy;

(*b*) To promote the planned development, throughout the country, of agricultural production on a co-operative basis and of the co-operative organization of the prerequisites, facilities and processes of agricultural production (e.g., minor irrigation, farming, etc.), as well as of non-agricultural production, whether ancillary to agriculture or otherwise of importance to the rural economy (e.g., milk supply and dairying);

(ii) (*a*) To promote the planned development, on a country-wide basis, of facilities for the storage and warehousing of agricultural commodities (including commodities ancillary to agriculture or otherwise of importance to the rural economy

of the country), with the object, among other things, of expeditiously bringing about conditions in which increased institutional credit will be available for agriculture and, ultimately, of bringing about the ownership on a co-operative basis of as wide a network of godowns and licensed warehouses as possible;

(*b*) In conjunction with the above, to promote, on a country-wide scale, the distribution to the cultivator, as far as possible on a co-operative basis, of (i) seeds, manures, fertilizers, agricultural implements, tools of cottage industries, etc., needed by the cultivator as producer and (ii) basic, but standardized, requirements such as kerosene, sugar, matches, etc., needed by him as consumer;

(iii) In pursuance of the above objects, in so far as their fulfilment falls within the sphere of implementation of State Governments or the co-operative organizations of different States, to give financial aid and accommodation, to such extent and on such conditions as may be feasible and desirable, to State Governments and, through them, to co-operative organizations; and in pursuance of the same objects, to give other forms of assistance to State Governments and co-operative organizations;

(iv) To give general directions to the All-India Warehousing Corporation, and to attach conditions to any loan, subsidy or other assistance given to the All-India Warehousing Corporation or the State Warehousing Companies;

(v) To administer (*a*) the National Co-operative Development Fund and (*b*) the National Warehousing Development Fund and, at its discretion, to make appropriations between the two Funds.

Administrative and other arrangements

4. The Board's office, including its Secretary and its administrative, executive, expert and other staff should be provided by, and be part of, the Ministry of Food and Agriculture.

Agencies

5. (i) For the discharge of such of its functions as pertain to co-operative development, the Board should collaborate, in an advisory capacity, with the State Governments.

(ii) For the discharge of such of its functions as pertain to warehousing, the Board should act through the All-India Warehousing Corporation.

(iii) In regard to ' distribution ', the Board's functions will be principally those of planning, directing and co-ordinating the activities of the All-India Warehousing Corporation and State Warehousing Companies, which will themselves act as agents of the Government of India, State Governments, etc., under the general directions of the National Co-operative Development and Warehousing Board.

Constitution of Funds and sources of finance

6. (i) There will be two Funds: (*a*) the National Co-operative Development Fund and (*b*) the National Warehousing Development Fund.

(ii) The Government of India should make an initial non-recurring contribution of Rs 5 crores to the National Warehousing Development Fund.

(iii) Thereafter, out of the minimum of Rs 5 crores to be annually made available by the Government of India, (*a*) Rs 3 crores should be allotted to the National Co-operative Development Fund and (*b*) Rs 2 crores to the National Warehousing Development Fund, unless, for any particular year, a different allotment is suggested by the Board which should be consulted before each allotment. The Board will be at liberty to make appropriations between the two Funds.

(iv) Other sources for the Funds will be (*a*) *ad hoc* grants from the Government of India and (*b*) foreign assistance. (Warehousing development of the order envisaged is especially suitable for foreign assistance. We would emphasize the desirability of obtaining substantial assistance of this kind, if possible, for this part of the programme.)

Utilization of Funds by the Board

7. (i) *National Co-operative Development Fund* : This may be utilized for the following purposes:

(*a*) to make long-term loans to State Governments, on such terms and conditions as the Board may deem appropriate, to enable the State Governments to subscribe to the share capital of co-operative societies when undertaking activities (especially processing and marketing) which fall within the purview of the objects of the Fund; and

(*b*) to give non-recurring or recurring subsidies to State Governments, or through them to co-operative societies, on such conditions as the Board may deem appropriate, for objects which fall within the purview of the objects of the Fund.

We consider that, as a rule, subsidies or loans to the State Governments should be conditional upon a certain percentage of the total expenditure or outlay being met by the State Government itself. The proportion to be so met by the State Government may, we suggest, be ordinarily not less than 25 per cent. Thus, there might be different gradations, such as 25 per cent contribution from those State Governments which are relatively weak financially, 50 per cent from some and 75 per cent from those which are in a relatively strong position financially. As a rule, there should be no compulsory acquisition of processing plants etc.; but an important exception would have to be made where members of a co-operative society, or persons prepared to form themselves into a co-operative society, the membership, composition, etc., being such as satisfy criteria prescribed by the Board, offer to subscribe not less than 30 per cent of the share capital. In such an event, and provided the State Government is satisfied that acquisition is in conformity with the public interest, it may, after notification, compulsorily acquire the concern. Briefly, we do not contemplate a monopoly for co-operative processing, marketing, dairying, etc., except for definite reasons in specific contexts. In this context, we recommend that State Governments should take steps to license all plants, factories and mills (other than at the cottage industry level) which are engaged in the processing of agricultural commodities or in related activities and meanwhile promote, as soon as possible, such legislation as may be necessary for the purpose.

(ii) *National Warehousing Development Fund* : This may be utilized for the following purposes:

(*a*) to subscribe to the share capital of the All-India Warehousing Corporation;

(*b*) to make loans on such terms and conditions as the Board may deem appropriate to a State Government for the purpose of its subscribing to the share capital of the State Warehousing Company pertaining to its State;

(*c*) to make loans on such terms and conditions as the Board may deem appropriate to the All-India Warehousing Corporation, to a State Warehousing Company (through the All-India Warehousing Corporation or otherwise), to State Governments and to co-operative societies (through the State Governments); and

(*d*) to give non-recurring or recurring subsidies on such conditions as the Board may deem appropriate to the same bodies and through the same channels as in (*c*) above.

II. ALL-INDIA WAREHOUSING CORPORATION

Amount of share capital

We consider that the Corporation should have an authorized share capital of Rs 20 crores. Out of this, the issued and paid-up share capital should be Rs 10 crores.

Composition of share capital

9. We recommend that not less than 40 per cent of the share capital should be subscribed by the National Co-operative Development and Warehousing Board. The latter will, therefore, contribute Rs 4 crores to the total paid-up capital of Rs 10 crores. The initial non-recurring allotment of Rs 5 crores by the Government of India will enable the Board to contribute this amount to the share capital. (The remaining Rs 1 crore will enable it to commence giving loans and subsidies immediately.) The allotment of the balance of share capital should be as follows:

(1) not less than 10 per cent to the State Bank of India;

(2) not more than 15 per cent to other commercial banks;

(3) not more than 20 per cent to insurance companies, investment trusts, etc.;

(4) not more than 10 per cent to joint-stock companies which deal in agricultural commodities; and

(5) not more than 5 per cent to organized forward markets such as the East India Cotton Association.

Minimum dividend etc.

10. A minimum dividend on the share capital should be guaranteed by the Central Government on broadly the same lines as for the Industrial Finance Corporation. Similarly, debentures should be guaranteed as to both principal and interest by the Central Government. There should also be other appropriate provisions analogous to those pertaining to the Industrial Finance Corporation.

Composition of Board

11. The members of the Standing Committee of the National Co-operative Development and Warehousing Board should be *ex officio* members of the Board of the All-India Warehousing Corporation, and the Secretary of the Food and Agriculture Ministry, the *ex officio* Chairman of the Board.

This accounts for 4 members including the Chairman. We recommend that there should be 7 other members (including 3 more from the National Co-operative Development and Warehousing Board) on the Board as follows:

1. Representative of the Railway Board (Member, National Co-operative Development and Warehousing Board) (*Ex officio*)
2. Consulting Engineer (Road Development) to the Government of India, Ministry of Transport (Member, National Co-operative Development and Warehousing Board) (*Ex officio*)
3. Representative of the State Bank of India (Member, National Co-operative Development and Warehousing Board) (*Ex officio*)
4. One representative of the other commercial banks
5. One representative of the insurance companies
6. One representative of the joint-stock companies and forward markets
7. Managing Director, who should be appointed by the National Co-operative Development and Warehousing Board in consultation with the Board of the All-India Warehousing Corporation.

Functions

12. Subject to the general directions of the National Co-operative Development and Warehousing Board and in conformity with its plans and policies, the functions of the Corporation would be: (1) to acquire and build godowns and warehouses at places of all-India importance; (2) to run licensed warehouses and to train for that purpose the requisite cadres and staff; (3) to manage regulated markets at centres to which the Corporation's activities have extended; (4) to subscribe to the share capital of the State Warehousing Companies; (5) to act as agent of the National Co-operative Development and Warehousing Board; (6) to take up 'distribution' as agent of the Government of India or of State Governments and (7) to issue debentures.

We would emphasize that what we are aiming at is a powerful agency charged with the task of carrying out the programme in the best interests of the rural producer. Monopoly of the services involved, e.g., storage, is not as a rule contemplated. There will, therefore, ordinarily be no compulsory acquisition of godowns and warehouses; where, however, a godown or a warehouse is situated in a regulated market or other place notified in this context, the acquisition may be compulsory, but on payment of compensation etc. The same applies to the State Warehousing Companies and co-operative societies. We recommend that State Governments should promote the formation of regulated markets much more extensively than they have done so far; and that States which have not yet passed the necessary legislation should do so without delay. We further recommend that, where the All-India Corporation has extended its activities to the area of a regulated market—e.g., by establishing a warehouse or taking over an existing godown—the management of the market should automatically vest in the Corporation. This should be provided for in the law. The same applies to State Warehousing Companies in relation to regulated markets to which they have extended.

III. STATE WAREHOUSING COMPANIES

Amount of share capital

13. Subject to necessary variations, the authorized share capital may normally be Rs 2 crores and the issued and paid-up share capital Rs 50 lakhs.

Composition of share capital

14. Not less than 50 per cent of the share capital should be subscribed by the All-India Warehousing Corporation on condition that the rest is subscribed by the State Government. The statute governing the National Co-operative Development and Warehousing Board and the All-India Warehousing Corporation should contain a provision to enable the establishment of a State Warehousing Company in any particular State as soon as the State Government agrees to pay the stipulated part of the share capital of the Company. (As already indicated, the State Government can obtain a loan for the purpose from the National Co-operative Development and Warehousing Board.) There should be no other subscriptions to the share capital of the State Warehousing Company. It will be noticed that banks, insurance companies, certain joint-stock companies, forward markets, etc., automatically come into the picture through their being shareholders of the All-India Warehousing Corporation.

Composition of Board

15. There should be eleven members in all including the Chairman and the Managing Director. The Chairman should be nominated by the All-India Warehousing Corporation. In addition, the All-India Warehousing Corporation may nominate three members; one of them should usually be the local representative of the State Bank of India and one at least of the remaining, a non-official. Six members may be nominated by the State Government. These should ordinarily include the Registrar of Co-operative Societies (or Development Commissioner etc.), the Director of Agriculture (or an Agricultural Marketing Officer), the Chief Engineer (or other Senior Engineer) in charge of roads, and a representative of the State Transport Authority (if any) in the State. Of the remaining two, at least one should be a non-official co-operator. The Managing Director should be appointed by the All-India Warehousing Corporation in consultation with the Board of the State Warehousing Company.

Functions

16. The functions of the Company would be:

(1) to acquire and build godowns at places other than those earmarked for the All-India Warehousing Corporation.

(2) to run licensed warehouses;

(3) to manage regulated markets at centres to which the Company's activities have extended :

(4) to act as agent of the All-India Warehousing Corporation;

(5) to take up ' distribution ' as agent of the Government of India, State Government or All-India Warehousing Corporation:

(6) to subscribe to the share capital of co-operative societies concerned with storage or warehousing as their primary function or one of their primary functions;

(7) to issue debentures ; and

(8) to borrow from the National Co-operative Development and Warehousing Board or the All-India Warehousing Corporation or the State Governmen'.

IV. THE CO-OPERATIVES

Co-operatives and warehousing

17. It will be seen that the State Warehousing Company for its part will be in a position to subscribe to the share capital of co-operatives which take up warehousing as a primary function. The exercise of this power will provide one of the means of effecting co-ordination between the National and State parts of the programme and between both these and the rural part of the programme which is to be taken up by co-operatives. Broadly, we contemplate that the State Warehousing Company will have its godowns and warehouses up to the district and sub-divisional levels, and that the co-operative warehouses will be established in the smaller towns and the taluka headquarters (provided of course they are important from, e.g., a marketing point of view) and at other important marketing centres in the semi-urban and rural areas of the district. (This area-wise division of functions between the State Warehousing Company and the co-operatives should not, however, be interpreted literally or taken to be a rigid rule.) The programme contemplated can, at the rural end, be linked to the bigger villages by encouraging the co-operative societies in such villages to construct godowns, seed-stores, etc., in exercise of their multi-purpose functions. We also recommend that, where the State Warehousing Company has contributed to the share capital of a co-operative society, it will be open to the latter to replace or retire the share capital of the State Warehousing Company in accordance with a phased programme of replacement. This principle, however, should not operate in respect of godowns and warehouses at and above the sub-divisional and district levels. At that stage, the State Warehousing Company should continue to hold not less than 51 per cent of the share capital of the society in charge of the godown or warehouse.

Regulated markets

18. We would emphasize the very great need for ensuring that the management of regulated markets is not dominated by the influence of private trade, as today it is in many places, to the detriment of the rural producer. As already mentioned, an effective way of doing this would be to entrust the management of such markets, wherever possible, to the State Warehousing Companies (or, at all-India centres, to the Corporation). The officers of the Company or Corporation can be expected to be much more independent than the local functionaries, and of course overall supervision by the institution itself would be available under the suggested arrangement. We regard it as very important that the management should vest in a powerful, independent State-sponsored institution of this kind, in preference to the market committee of which traders are often the most important members. In replacing the committee, the suggested arrangement will also have the effect of replacing the present executive official of the committee who is known variously as superintendent, secretary, *daroga*, etc. This functionary, who is responsible for ensuring that there is fair play between the buyers and the sellers, is in many instances merely a tool of the local trade interests.

Hence our recommendation that, at those centres to which the All-India Corporation or the State Warehousing Company has extended its operations, the management of the regulated market should be statutorily entrusted to this institution. A local advisory committee may be appointed to assist the officer of the institution at such places. We further recommend that, as long as a regulated market continues to be managed as at present, i.e., by a market committee etc., under the existing law, provision should be made

for the nomination on the committee of one or two representatives of the co-operative marketing and banking institutions, if any, of the locality. These should similarly be on the advisory committee wherever the new arrangement comes into force, i.e., when the regulated market has been taken over by the All-India Warehousing Corporation or the State Warehousing Company.

Training of personnel

19. The importance of making adequate arrangements for the training of the officers in charge of the godowns and in particular of the licensed warehouses, need hardly be emphasized. We consider that training classes for them should be organized in conjunction with the scheme for the establishment of training colleges for the supervisory and other staff of commercial banks; there should be co-ordination and collaboration, at all levels of training, between the National Co-operative Development and Warehousing Board and (1) the Central Committee for Co-operative Training and (2) the Advisory Council in charge of the Bankers' Training College.

Godowns and staff of civil supplies departments

20. In regard to the immediate programme of the National Co-operative Development and Warehousing Board and its auxiliaries, we invite attention to the fact that there is already a network of civil supplies godowns throughout the country. We consider that, as a first step, such of these godowns as may be found suitable for the purpose should be taken over from Government, or from their other owners, by the National Co-operative Development and Warehousing Board and a co-ordinated plan worked out into which these may be fitted. It is also possible that the staff engaged for several years in the civil supplies departments of different States, a large part of which is in the process of being thrown out of employment on the accomplishment of decontrol, contains a fair number of persons whose experience may be suitably made use of by the All-India Warehousing Corporation, the State Warehousing Companies, etc., at different levels of operation All this implies that the organization should be set going even before the National Co-operative Development and Warehousing Board, the All-India Warehousing Corporation, etc., are statutorily established. We do not consider that there is likely to be any great legal or administrative difficulty in building the nucleus of this organization and in taking over the civil supplies godowns, i.e., such of them as are really suitable, in advance of the proposed legislation.

Subsidies and other assistance from the State

21. An important feature of our scheme is the provision for subsidies being given, where needed, by the National Co-operative Development and Warehousing Board to the All-India Warehousing Corporation and the other auxiliaries including the co-operative societies in order that godowns and warehouses may be built and run on business lines. The available information goes to show that an element of subsidy may be necessary in many instances for appreciable progress to be possible. One of the reasons for this is the high cost of constructing godowns and warehouses. The subsidies should of course be given only where, and to the extent that, they are demonstrably necessary; further, in individual instances, they may be restricted to a specified number of years. Once the uneconomic element in the cost has thus been provided for, it should be the aim of the All-India Warehousing Corporation, State Warehousing Companies, etc., to organize and conduct warehousing and distribution as a purely business concern. Since none of the risks

connected with the other functions of the National Co-operative Development and Warehousing Board (such as development of co-operative marketing, processing and dairying) fall on the entirely separate business organization we propose in the form of the All-India Warehousing Corporation etc., it seems to us that the proposition should attract substantial contribution, by way of both finance and personnel, from commercial banks, insurance companies, etc. The ' distribution ' part of the functions of the All-India Warehousing Corporation and of the institutions subsidiary to it, as we have already pointed out, will be on the basis of agency and no financial risk devolves on the organization. A guaranteed minimum dividend is another attraction to the provision of which in this scheme we attach considerable importance.

Usefulness for price support or price control

22. We have elsewhere pointed out that such a network of godowns and warehouses will be of signal use in a number of eventualities in the sphere of Government's activities. Thus, the availability of such a network will enable Government, in one set of circumstances, to pursue a price support programme for agricultural commodities, should that unfortunately become necessary because of depression, or in the alternative set of circumstances connected with the contingency of inflation, to pursue effectively a programme of procurement of agricultural commodities for the purposes of price control.

CHAPTER 36

THE CO-OPERATIVE AGENCY (I APEX AND CENTRAL): RECOMMENDATIONS

Introductory

OUR recommendations concerning the co-operative agency will be found partly in this chapter and partly in Chapters 37 and 38. Those specially relevant to the higher levels of the structure are included here. Chapter 37 is devoted to the base of the structure, namely, the primary society. Administration (especially personnel), supervision and audit, as involving a somewhat distinct set of considerations which affect all levels, are dealt with in Chapter 38. The main divisions of this chapter are (i) the system as a whole, (ii) the structure at the apex level and (iii) the structure at the central (or district) level. In so far as they fall within the first of these divisions, our recommendations and observations on co-operative credit may be conveniently grouped under the heads (1) reorganization (of structure), (2) reform (of policies etc.), (3) co-ordination (of credit institutions) and (4) stabilization (of credit). The second and third divisions of the chapter deal with the main components of the structures of co-operative credit and of co-operative economic activity (especially marketing), at the relevant levels. In the second, the sub-divisions are (1) state co-operative banks, (2) central land mortgage banks and (3) state co-operative marketing societies. In the third and remaining part of the chapter are given our recommendations concerning central co-operative banks and district marketing societies, preceded by certain general recommendations relevant to this part of the subject.

I. THE SYSTEM AS A WHOLE

(1) THE REORGANIZATION OF THE CREDIT STRUCTURE

Reorganization

2. We have explained why we believe that State partnership provides the key to needed reorganization, such partnership implying financial and technical participation within the structure in addition to, and as distinguished from, administration, supervision, guidance and assistance from outside. It should be clear from what we have already said that we conceive this partnership as so much wider and so very much more vital than the Government sponsorship which consists of the officials of the co-operative or other departments taking the Movement under their wing that there is little or no relationship between the two. Indeed the one may often be inconsistent with the other. Thus the routine administrative dispensation, not unknown in some States, whereby the district collector is almost invariably the chairman of the central co-operative bank, and the Registrar of Co-operative Societies the chairman of the state co-operative bank, would be far from our idea of either the content or form of State partnership. But our conception of State partnership has already been sufficiently explained in the development of the arguments which lead to the recommendations in this chapter. At the apex and central levels, the aim of State partnership should be to provide

adequate, stable and powerful support to the primary society. In extent, it should be major partnership. In duration, no specific term should be set to it. The reverse process by which the State as the larger partner gradually becomes the lesser partner, and perhaps even eventually withdraws from partnership, cannot be expected either to start or to proceed as a matter of mechanical and scheduled uniformity. The point of commencement of this reverse process must differ for different institutions and areas. It can begin only when, and to the extent that, the purpose of major State partnership at the higher levels has begun to be fulfilled. That purpose begins to be fulfilled when the development of the primary structure on the one hand, and the strengthening and reorganization of the central and apex structures on the other, together inspire the confidence that co-operative credit will thereafter be able to continue to serve adequately the credit needs of the small and medium cultivator notwithstanding the proposed degree of curtailment of State partnership. For this reason, no arbitrary time limit can be set to major State partnership at these levels. The limit will be dependent on the effort made and it will not be possible to measure its approach except in terms of achieved result and demonstrable promise.

The form of what we have broadly called State partnership would differ according to the level of the co-operative structure. At the apex level, such partnership would be direct. In other words, the State Government would directly contribute to the share capital of the institutions concerned. At the district level, the State partnership would be through the apex institutions; in this instance, the State Government would provide funds (e.g., in the shape of additional share capital) to the apex institutions to enable them to contribute to the share capital of the institutions at the district level. At the primary level also, State participation would be indirect; it would take the form of similar contributions to the apex institutions to enable them to provide funds to the organizations at the district level, which in turn would contribute to the share capital of the institutions at the primary level. In certain cases, e.g., marketing and processing societies, State partnership (as will be seen later) might be direct at all levels.

We recommend that each State Government should, as early as possible, draw up in consultation with the Reserve Bank (or, as the case may be, the National Co-operative Development and Warehousing Board) a phased programme for the reorganization, on the basis of State partnership, of its co-operative institutions—short-term credit, long-term credit, marketing, processing, milk supply, dairying, etc.—at all levels: apex, central and primary. The programme should provide for each of these institutions, whether to be reorganized or to be newly established, having an initial minimum level of share capital which, over a period of years, will be raised to the optimum level. At the apex and central levels invariably (and at the primary level generally) not less than 51 per cent of the share capital of these institutions should be held by, or derived from, the State Government in the manner described above; the percentage may have to be more than this, if contributions from the co-operatives etc., do not, together with Government's 51 per cent, come up to the initial minimum level. Another possibility is that, as long as the process of increase from minimum to optimum goes on, Government may have to make additional contributions, directly or indirectly, in order to maintain the level of its partnership at 51 per cent.

Until the optimum level is reached, it should be obligatory on members to increase their shareholding in conformity with the detailed requirements of the programme as worked

out. Such compulsory contributions would first be for increasing the level of share capital from the minimum to the optimum. In the case of marketing and processing societies, the compulsory contributions from members should be fixed as a percentage of the turnover of the sales made through the society by each member; alternatively, they should be related to the size of the loan taken by the member from, e.g., a credit society with which the operations of the marketing or processing society are co-ordinated.

Even after the optimum level of share capital is reached, compulsory contributions should continue for the purpose of 'retiring' the State or State-derived contribution to share capital in the following manner.

The objective, at the rural base, that is, where the larger-sized primary agricultural credit society and all other societies at the primary level are concerned, will be to retire the whole of the State-derived contribution to share capital within a period of time to be fixed after taking into account all the circumstances, so that at the end of that period the societies at the primary level become fully co-operative.

At the apex and central levels, however, replacement of Government-derived share capital would proceed until it is reduced to 51 per cent, but not beyond that, so that the major partnership of the State will be retained for as long a time as necessary to enable the institutions at this level to give strong and effective support to the rural societies.

Other main aspects connected with the reorganization, e.g., extension of short-term co-operative credit (through the same structure as for agriculture) to cottage industries, special credit arrangements for economically backward areas or those inhabited by backward tribes, administrative and technical guidance and assistance, etc., are dealt with elsewhere in their appropriate places. With respect to financial provision for the wider reorganization of which credit reorganization will be a part, it is envisaged in some of the recommendations we have already made that the resources of the State Governments will be supplemented by loans and subsidies from the different Funds which are to be instituted, especially those which will be operated by the Reserve Bank and the National Co-operative Development and Warehousing Board.

(2) THE REFORM OF CREDIT POLICIES ETC.

Reform

3. We recommend that so far as agricultural producers are concerned, it should be the endeavour of the co-operative credit society, which hereafter will receive the needed State aid either directly or indirectly, to cover as large a proportion of the population within as short a time as possible. We recommend that there should be legal provision for a right of appeal against non-admission. In other words, a person aggrieved that the society has refused to accept him as a member should be entitled to have the matter looked into, and if necessary set right, by the Registrar of Co-operative Societies. To objections likely to be raised on the ground that the society should have full autonomy in respect of admission of members, we would answer that there is every justification for such right of appeal if we remember the need to ensure that the benefits of membership are not confined to a relatively small coterie of the powerful, the influential and the propertied in each village. Further, Government in the new arrangement has a twofold claim for its voice to be heard: from within the society through the right of partnership, and from outside the society through the power of control; and one of the main objects of that arrangement itself is to rectify the inadequacy

of the supply of credit to the medium and small producers which is now a feature of the operations of co-operative credit. How the cultivator, as producer and not owner, can be provided credit on the basis of his produce, without any contravention of sound business principles and within the extended meaning of 'creditworthiness', has already been mentioned at more than one place and will be elaborated in the next chapter in connexion with the subject of 'crop loans'. Here it need only be recalled that we have described that system as one in which (i) production is the main purpose of the arrangements for finance, (ii) short-term loans are given on the basis that a crop is anticipated, not primarily that a title exists; (iii) the loans are related in amount to the estimated outlay on raising the crop, and (iv) the recoveries are made, as and when the crop is sold, from the proceeds of the sale.

We would emphasize that the subsistence needs of the agricultural producer—as distinguished from specific 'consumption' needs connected with marriages, funerals, etc.—should be treated as needs which may be legitimately fulfilled, and ought to be effectively fulfilled, by the system of productive finance here recommended. Such needs will be automatically covered if the quantum of crop loans—at so much per acre of the particular crop cultivated—is properly fixed for each area after taking into account all the relevant considerations.

The present arrangements are even less satisfactory for village handicraftsmen. We have already noted that the credit arrangements for these should be part of the normal co-operative credit system and that Government should, where needed, provide adequate guarantees to enable the system to undertake this work. Apart from production credit, it is necessary to provide for specific 'consumption' needs of these persons (this applies also to agricultural producers); reference is invited to Chapter 26 in which we have elaborated the lines on which a system analogous to the chit fund may be incorporated within the framework of the larger-sized primary agricultural credit society. Loans in respect of marriages, illnesses, funerals, etc., should be made available in the manner there suggested.

(3) The Co-ordination of Credit Institutions

Co-ordination

4. While our recommendation regarding major State partnership will, we believe, provide the needed financial backbone to the superstructure of co-operative credit and enable it to extend full support to the rural base, it is also of great importance that the different components of the superstructure should function in co-ordination with one another. By and large, such co-ordination is now lacking. A theoretically ideal solution might be for one single agency to deal with short-term, medium-term and long-term credit, but past experience, if nothing else, points to the desirability of having two separate institutions for dealing with short-term (and medium-term) agricultural credit on the one hand, and long-term credit on the other. Land mortgage banking is highly specialized, and it will not be desirable to saddle the short-term co-operative credit structure, which will be called upon to play an increasingly complex part within its own sphere, with additional responsibilities of so specialized a character. Short-term agricultural loans may be defined as those limited to 15 months, medium-term agricultural loans as ranging from 15 months to 5 years and long-term agricultural loans as extending beyond 5 years. At the apex level, short-term loans should continue, as at

present, to be provided through state co-operative banks. Medium-term loans should also be the responsibility of the short-term co-operative credit structure; in this context, special attention should be paid to loans for the purchase of livestock, which, as shown by the Survey, are an important medium-term requirement in many parts of the country. Long-term loans should be provided by land mortgage banks.

We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible and the same administrative staff operate under the two types of institutions. Thus, the state co-operative bank and the central land mortgage bank should have a common board of directors, a common administrative machinery and a common building to house them. If it is not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to States where either state co-operative banks or central land mortgage banks have to be newly established. Other States should, as far as possible, attempt to modify existing arrangements in approximation to this model.

(4) The Stabilization of Credit

Stabilization

5. Complementary to the recommended establishment of a National Agricultural Credit (Stabilization) Fund in the Reserve Bank is the need to institute individual Agricultural Credit Stabilization Funds of their own by state co-operative banks, central co-operative banks and, wherever feasible, also by the larger-sized primary agricultural credit societies. It may be recalled that, so far as the National Agricultural Credit (Stabilization) Fund is concerned, we have recommended that it should be utilized for granting medium-term loans to state co-operative banks etc., only when the Reserve Bank was satisfied that, for reasons such as drought, certain short-term loans due from an institution cannot be repaid by it without serious dislocation to the co-operative credit structure of the State and should therefore be allowed to be converted into medium-term loans. Further, this facility could ordinarily be made conditional on the state co-operative banks or other institutions concerned maintaining similar Agricultural Credit Stabilization Funds. The Reserve Bank, it was mentioned, might further insist that a part of the overdue liability should be met from Stabilization Funds within the co-operative credit structure itself. As regards the building up of such Funds, we recommend that the dividend in excess of a prescribed level, say, 3 per cent, paid on the shares held by Government (either directly or through the apex and central banks) should in part be credited to this Fund. (We have elsewhere recommended that the other part should be earmarked for the Agricultural Credit (Relief and Guarantee) Fund.) In addition, there should be compulsory deductions from the dividends payable to other shareholders. These deductions may be equivalent to the excess above a prescribed level of dividend, such level being slightly higher for ordinary shareholders than that fixed for the State Government or for the apex and central banks.

Our proposal for instituting Agricultural Credit Stabilization Funds in the co-operative credit structure is only an extension of the principle of self-help and mutual help on which the co-operative movement is based. It is not intended that the facility of conversion of

short-term to medium-term accommodation should cover types of dislocation of credit arising from inefficiency, mismanagement or fraud in the institutions concerned. Nor, of course, should the facility be made available in conditions in which no amount of assistance of this kind can save the institution from liquidation. Where necessary, the provision of the facility may be accompanied by a condition that the institution should effect such changes in its management or lending policies as may be stipulated by the central co-operative bank or the state co-operative bank (if the facility is offered out of their respective Funds without approach to the next higher level) or, in the last resort, by the Reserve Bank where help is accorded out of the National Agricultural Credit (Stabilization) Fund.

II. THE STRUCTURE AT THE APEX LEVEL

(1) STATE CO-OPERATIVE BANKS

(a) *Membership*

Apex banks

6. The membership of the state co-operative bank should be open to all central banks and such other co-operative credit institutions as have direct dealings with it (e.g., primary agricultural credit societies in the areas, if any, in which the apex bank functions, through its branches, as a central financing agency). A strictly limited number of individuals may be allowed to become members.

(b) *Directorate*

Even though one implication of major State participation might, in rigid logic, be held to be that the major voting power should also vest in Government, we consider that, ordinarily, Government should not be allotted more than a third of the seats on the directorate for nomination of its representatives. This recommendation applies to all co-operative institutions in which Government is the major shareholder. At the same time, Government should, on certain specified matters, have overriding powers, e.g., power to reverse or modify decisions on those matters, or power to impose decisions of its own in so far as they are relatable to those items. These reserve or special powers of Government, arising from its position as major partner, may in a few instances coincide with, but in all other instances should, in principle, be kept separate from, the powers of Government and the Registrar arising from the normal provisions of the Co-operatives Societies' Acts. The special powers arise only when the special position exists, and they cease when the special position ceases. The matters to which these powers should be related can only be broadly indicated here as falling under two categories: (i) the soundness of financial policies and (ii) the larger objectives of loaning policies, e.g., linking of loans to production, or making a large amount of credit available to the medium and small producer. Detailed items under these heads would have to be worked out, in the light of local conditions and features, for each state co-operative bank. The nominees of Government should include the Registrar of Co-operative Societies, and, ordinarily, a representative of the finance department and a banking or financial expert. Special care should be taken in the selection of the chief executive of the bank (managing director or manager). His appointment should be subject to the approval of Government.

(c) *Share capital*

In addition to accretion to share capital through partnership of the State, there are two methods of increasing share capital which we would suggest for adoption wherever appropriate: (i) to insist on member central banks and societies subscribing to the share capital an amount that is a prescribed proportion of their own share capital and (ii) to relate the borrowing of members to their shareholding. These devices, however, should not be adopted to the detriment of the major objectives of policy.

The constitution of state co-operative banks should provide for their being able to contribute to the share capital of central banks.

(d) *Loan operations*

In the loan operations of state co-operative banks, the demands for agricultural credit should receive the first priority. We have noted how some state co-operative banks finance traders, merchants and other 'individuals', and sometimes do so on a large scale. Such financing should be curtailed, if necessary by stages, but as speedily as possible and eventually given up. Loans to individuals should be given only to a very limited extent, e.g., against their fixed deposits with the bank.

We also deprecate the tendency (noticed in an earlier chapter) on the part of some state co-operative banks to give long-term loans out of short-term resources.

In conclusion, we expect the state co-operative banks, after reorganization, to play a much more positive role than they do at present with regard to the co-operative credit system. They should function as real pivots of the Movement. They should establish close contacts with their member banks as also with the agricultural credit societies at the base. The apex bank should be made the custodian of the surplus resources of the co-operative banking system; for this purpose all co-operative central financing agencies should be statutorily required to invest their surplus funds in the apex bank.

(2) CENTRAL LAND MORTGAGE BANKS

(a) *General*

Central land mortgage banks

7. We have seen elsewhere that land mortgage banking has made little progress in India. In more than half the States, there is not a single land mortgage bank. We recommend that each State should have a central land mortgage bank. (We would ourselves prefer the terms central land *development* bank and primary land *development* bank, though we shall continue to use the more familiar designation in these chapters.) We recommend that State Governments at the same time review their tenure and tenancy laws and take steps to eliminate such features in these laws as, without being essential to policy, are hindrances to the development of a simple and effective system of land mortgage banking. Briefly, where land reforms necessitate restrictions on the mortgaging of title, the scope of such restrictions should be the minimum necessary: thus selective mortgages—e.g., to co-operative societies and to Governments—could be made permissible. Finally, any special procedure for registration of mortgages under the land reform acts (and indeed the general procedure itself for registration of mortgages on land) should be made simple, cheap and expeditious; similarly, the provisions of the law should ensure that the title passed is as clear and as secure as possible.

(b) *Share capital*

So far as central land mortgage banks are concerned, the proportion of share capital to be contributed by Government, while subject to a minimum of 51 per cent, might have to be of a much larger proportion than in the case of apex banks or central banks. This is because the programme of land development, in the context of the plan for increase of agricultural production, is so considerable on the one hand, and the availability, through institutional channels, of medium and long-term credit for such development so insignificant on the other, that strong central (and primary) land mortgage banks are one of the foremost needs of the country's agricultural development today. The size of Government contribution to share capital should accordingly be such as to help establish, irrespective of the proportion of private share capital forthcoming, an adequate number of central land mortgage banks whose financial structure enables them to borrow adequately and lend adequately. The constitution of central land mortgage banks should provide for their being able to contribute to the share capital of primary land mortgage banks.

(c) *Changes in loan policies*

The overwhelming majority of the loans advanced by land mortgage banks have been for the repayment of prior debts and redemption of mortgages on land. This was probably quite justified, at any rate till some years ago, when the need was to reduce the burden of debt borne by the cultivator and to save his land from being foreclosed or sold. Today, however, after a series of years of relatively high prices for agricultural produce the position stands significantly changed. The emphasis is very clearly on increased agricultural production and, in keeping with this trend, it is necessary for land mortgage banks to align themselves to a positive policy of giving loans for land improvement and development including purposes such as bunding, digging of wells and acquisition of pumps, agricultural machinery, etc. The detailed recommendations which appear in the ensuing paragraphs are, for obvious reasons, mainly relevant to the relatively well-developed land mortgage banks of States like Andhra and Madras. They will become relevant for other States as and when their land mortgage banking systems pass the initial stages of establishment or reorganization.

Productive loans

8. A simple and obvious first step towards increasing the number of productive loans is to give first priority to applications for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipment, and similar productive purposes. The central land mortgage bank should make its policy of 'priority for production' clear to the primary land mortgage banks. They should be told that applications for loans for improvement of land and other productive purposes should be taken up first, i.e., in preference to applications for non-productive loans, irrespective of the date of application, at all stages of disposal, i.e., local investigation, submission to the central land mortgage bank with recommendations and so on.

Along with the encouragement of productive loans should go the discouragement, not necessarily of all non-productive loans, but certainly of non-productive loans of low priority. Thus, applications for loans should not be entertained when the loans sought are found, on investigation, to be of this description. Further, applications for loans for amounts above a specified figure, say, Rs 5,000 should not be entertained unless the loan

is for agricultural development. Supervisors of primary land mortgage banks should be instructed to visit villages with the specific object of popularizing loans for land improvement and asked to maintain a separate diary of their activities which should be checked by the central land mortgage bank's inspector. It is in the persistent pursuit of numerous small things such as these, which are nevertheless strategic, that there lies the prospect of emergence of a better system.

There are also other factors to be taken note of if the policies and operations of the central land mortgage banks are to be aligned to a deliberate policy of larger production through land improvement and otherwise. It would be generally correct to say that while central land mortgage banks have a fairly efficient machinery for valuation of land and legal scrutiny of title to land, they possess little or no machinery for ensuring even in a limited area (such as the area covered by a Community Project or one about to be served by an irrigation project):

(i) that loans will be given in that area in pursuance of a planned scheme of credit correlated to the agricultural plan under execution and suitably publicized for the information of potential borrowers;

(ii) that the technical soundness of a project—i.e., the project of an individual or group of individuals which happens to be part of the planned scheme of agricultural development for the area—is competently assessed before the scheme is financed; and

(iii) that the actual execution of the project is supervised from time to time (and the loan, if necessary, given in instalments corresponding with definite stages of such execution) so that there is certainty of the credit having been utilized for the particular productive purposes for which it is intended.

If the policies and operations of the central land mortgage banks are now to be oriented to increased agricultural production, one of the very first needs is to evolve a suitable machinery for achieving the three objectives mentioned above, viz., co-ordination of credit with planned agricultural development, assessment of technical soundness of the project in respect of which credit has been asked for, and verification of the actual utilization of credit. Administratively, these requirements will imply a variety of modifications in the present system, e.g.,

(*a*) the adoption of techniques for making known the scheme of credit and the procedure for obtaining loans to intending borrowers in the particular area;

(*b*) close co-ordination with the appropriate departments of Government—agriculture, public works department, etc.—and their district staff; and

(*c*) expansion (and where necessary specialization) of the staff of the central and primary land mortgage banks, especially for the purpose of supervision.

We attach very great importance to the employment by land mortgage banks of adequate and trained supervisory staff because of the need to ensure that the credit provided is utilized for the particular productive purpose for which it is intended. The improvements should be supervised from stage to stage during the execution of the

project and the loan disbursed in instalments after each such supervision. In this matter, attempts should be made wherever feasible to bring about co-ordination between the supervisory staff of state co-operative banks and of central land mortgage banks.

Apart from the question of supervisory personnel, there are other requisites for the success of a scheme of land improvement. In the first place, land mortgage banks cannot under their existing rules lend more than a percentage of the existing value of the land as distinguished from value after improvement. Further, there is the important question of title and the steps to be taken to ensure that it vests unambiguously in the bank which finances the improvement.

As regards the first question, the point is that lands are not sufficiently valuable before the improvements are effected and, on this basis, the amount of finance which land mortgage banks can provide under their existing rules of valuation may often be inadequate. The need accordingly arises for some form of guarantee to cover the difference between the value before and after improvement. This guarantee can only come from Government; it will have to be for a specified period and cover the difference between the two values, namely, value before and after improvement. The guarantee will of course lapse when the improvements have been effected. Meanwhile, the potential risk to Government can to a very great extent be minimized by effective supervision.

Since doubts regarding title tend to delay the sanction of loans, it is of importance to ensure, wherever this can be done without infringing wider principles of law, that a mortgage to the bank has the effect of the title being unambiguously vested in it. We recommend that the State Governments should take suitable steps for this purpose, including amendment of the relevant law to the extent possible. Further, we consider that primary land mortgage banks will fulfil an extremely useful function if they are in a position to guarantee the repayment of the loan to the central land mortgage bank in the event of a dispute regarding title. Such a guarantee will facilitate the expeditious disbursement of a productive loan, since the disbursement can take place after a preliminary investigation of title but before final examination and decision as to its legal validity. The guarantee will cease when the title is found to be in order. In this manner, and with the safeguards mentioned above, productive loans can be disbursed ' prematurely '. In order that it may be able to provide the necessary guarantee, we recommend that each primary land mortgage bank should constitute a guarantee fund of, say, Rs 25,000 to start with. This should be deposited with the central land mortgage bank. We further recommend that the State Government should, on behalf of the primary land mortgage banks, initially provide a sum of Rs 5 lakhs to the central land mortgage bank for enabling it to create the necessary guarantee funds for its primary land mortgage banks.

We suggest that the scheme of productive loans outlined above may be tried, in the first instance, in the areas which have been newly brought under irrigation and those which are to be newly irrigated, as well as in some of the Community Project Areas. Some of the major irrigation projects in the States will soon be nearing completion. There are, moreover, a very considerable number of minor irrigation works in the process of execution. It is obvious that, if full benefit is to be derived from all these, the cultivators in the areas concerned will have to be provided with finance for effecting improvements to their lands. The land mortgage banks in such areas have vast opportunities of service of which they should avail themselves to the fullest extent. We recommend that land mortgage

banks should be recognized as Government's agency for the distribution of productive long-term loans in areas newly brought under irrigation, wherever such a step is practicable. This implies that Government funds should also be channelled through these banks and not, in the traditional manner, through the revenue department. We have pointed out in Chapter 17 how unsuitable an agency that department is in the context of credit for development.

Period of loans

9. There are also a few other aspects of the association of credit with production and land improvement to which we would invite attention. One is the duration of such credit. At present, as noted elsewhere, land mortgage banks design their loans for 15 or 20 years in almost routine fashion. This is partly related to the fact that much of their lending is for the liquidation of prior debts. It is obvious that this practice should be revised and the period of repayment of loans for land improvement and production related to the purposes of the loans, different periods being prescribed for different categories of purposes. This, of course, would be a much sounder policy than fixing one rigid period for all kinds of purposes. Considering that the borrower of a productive loan is often able to repay the full amount in a much shorter period than 15 or 20 years, it is neither a good turn to him nor good business for the bank to adhere to an inflexible 15 or 20 year period for such loans as well. The suggested change will naturally involve modifications in the present practices of land mortgage banks in the matter of investment of collections, constitution of sinking funds, etc. These are small problems of detail for which perfectly feasible solutions can be found provided the land mortgage bank has first of all the will to effect the changes.

Another point to which we would invite attention is that, even though land mortgage banks had originally proceeded on the assumption that, with the loans taken from them, the borrower would clear off all his outside debts and not relapse into further debt, this assumption has not in actual fact been fulfilled. Land mortgage banks have often to give second and third loans to the borrowers; in theory, these loans are meant for development of land, but as a matter of practice, they are generally available for any one of the various purposes for which the first loans could be sanctioned. The practice itself is clearly undesirable. We are of the view that land mortgage banks should regulate their second and third loans in regard to purpose, amount, period and interest in such a manner as to exert a beneficial influence on the borrower and hold in check any tendency on his part to borrow frequently. They should provide such loans for productive purposes only. The rates of interest on such loans may be slightly higher than on first loans; further, a limit may be imposed on the total amount that can be thus borrowed.

Debentures

10. An important question which in many ways is linked to what we have stated in the previous paragraphs about loans for production and land improvement relates to the debentures issued by central land mortgage banks. These debentures, which represent the most important way in which working funds are raised by the land mortgage banks, are at present issued for a uniform period which is usually 20 years. We recommend that, in keeping with a policy of providing loans of varying periods for agricultural development, central land mortgage banks should issue debentures for varying periods—e.g., 5, 10, 15 or 20 years—in conformity with the purposes of the loans. Debentures of relatively shorter duration (e.g., 5 or 10

years) are likely to make a much more effective appeal than the long-dated ones to the investment market and to institutional investors such as joint-stock banks, insurance companies, etc. The interest too would be less.

In addition to debentures of these types which are primarily meant for urban institutions, but with the period and other terms suitably altered to fit in with the requirements of rural investment, we recommend that land mortgage banks should introduce 'rural debentures'. Our detailed suggestions regarding these will be found in the chapter on 'Rural Savings' (Chapter 42).

We also recommend that the Reserve Bank of India and the State Bank of India should take positive steps for the creation of an effective market for the debentures of land mortgage banks. We have referred to 'special development debentures' for land improvement in Chapter 33; these are to be purchased in whole or in part by the Reserve Bank which for the purpose will draw upon the National Agricultural Credit (Long-term Operations) Fund.

(d) *Some forms of State aid*

State aid

11. Apart from major State participation in share capital and guarantee in respect of production loans, land mortgage banks will require other forms of aid and assistance from the State Government. Including various facilities which are already afforded, we recommend:

(i) Guaranteeing the debentures of central land mortgage banks as regards both principal and interest;

(ii) Provision of staff for valuation of land and examination of schemes of land improvement, assessing their technical soundness, etc.;

(iii) Provision of overdraft facilities to enable land mortgage banks to provide loans until they are in a position to get a fairly large volume of mortgages on the security of which they can float debentures;

(iv) Exemption from stamp duty, registration fees, etc.;

(v) Enactment of special legislation (i.e., a separate land mortgage bank act) for facilitating the working of land mortgage banks in the State. Such legislation should, among other things, provide for a simple and elastic procedure which would enable land mortgage banks to recover defaulted loans expeditiously. Such a provision is necessary for the efficient working of the banks and for inspiring confidence in their debentures, since the ultimate security of these lies in the mortgages obtained against the loans and the ability of the bank to recover the instalments punctually;

(vi) Government should give special assistance to land mortgage banks in the undeveloped areas, with reference to their administrative costs, in order to enable them to function on an economic basis.

(3) STATE CO-OPERATIVE MARKETING SOCIETIES

(a) *General*

State co-operative marketing societies

12. Organized properly and at the appropriate stage—e.g., as the apex, not of a non-existent or ineffectual structure, but of one which has been carefully developed and is actively functioning—the state co-operative marketing society has an extremely important role to play. The development of co-operative credit on the scale we envisage and with the particular shift in emphasis we have indicated—viz., away from the property to the produce as basis of at any rate short-term accommodation—will be impracticable beyond a particular level unless there is coextensive development of co-operative marketing and unless the latter in turn is treated as part of a composite economic activity which includes processing, storage, etc.

We therefore recommend that, as soon as the relevant development at the primary and other stages makes this appropriate, state co-operative marketing societies should be set up in the several States. Such societies would form the apex of a federal co-operative marketing structure. Where they now exist, state marketing societies are usually weak and ineffectual: they have little organic connexion with the corresponding institutions (if any) below; they therefore tend to operate as isolated units along a few unimportant and unco-ordinated lines which they find easiest, or for which they develop a predilection unrelated to priority: and, in many cases, they are little more than small profit-making agencies for the distribution of certain commodities. The reorganization of existing state co-operative marketing societies in a suitable manner in certain States is just as necessary as the establishment of new ones at the appropriate stage in other States.

Further, in the state co-operative marketing societies to be newly established, no individual should be admitted as a member; in other words, the society should function as a pure federation of co-operative marketing societies at the district and primary levels. As regards the existing state co-operative marketing societies, we recommend that immediate action should be taken to ensure that their managing boards are preponderantly representative of societies and not individuals: the next step should be the complete elimination of individuals from membership.

The co-ordination of the state co-operative marketing society with the state co-operative bank will have to be as effective as that of the central land mortgage bank with the state co-operative bank. Nevertheless, the co-ordination has to be less formal. The risks associated with trading dictate its being financially and legally quite distinct from the state co-operative bank; this feature of financial and legal separateness is of course shared by the central land mortgage bank in the context of our recommendations; but, unlike the central land mortgage bank, the state co-operative marketing society has to be distinct from the apex bank in the administrative aspect as well, this being rendered inevitable by the extremely specialized nature of the business. Nevertheless, proximity, frequent consultation and exchange of information and above all the sharing of common programmes and policies, so that marketing and credit may develop together and strengthen each other in the same areas of operation, are all points to be borne in mind in regard to the relationship between the marketing and credit aspects of the co-operative structure envisaged in these recommendations.

(b) *Functions*

13. The main functions of the state marketing societies as well as of the district marketing societies and the primary marketing societies, which together form the federated structure, should be the following:

Functions

(1) marketing of crops;

(2) distribution of goods which the cultivator needs as producer, e.g., fertilizers, agricultural implements, etc.;

(3) distribution of certain basic but standardized requirements which the cultivator needs as consumer, e.g., sugar, kerosene, matches, etc.; and

(4) certain developmental functions, e.g., construction of godowns and warehouses.

(c) *State partnership and aid*

State partnership and aid

14. Major State partnership is as necessary in this case as in that of credit. There should therefore be State participation in the share capital of marketing societies--this also applies to processing societies, dairying societies, etc.—from the apex to the primary level, at not less than 51 per cent and for an indefinite period, on the lines already indicated in regard to the credit structure. It may be noted that we have recommended in regard to marketing societies, processing societies, etc., that there should be a compulsory contribution to share capital by each member of the society, the amount of such contribution being related, for instance, to the turnover of a member's sales through the society or to the size of the loan taken by the member from, e.g., a related credit society.

Apart from normal administration on the one hand, and the special provision of part of the share capital on the other, an extremely important duty of the State Government will be to provide the services of trained technical men to societies connected with marketing, processing and other economic activities. Programmes for the State-wise organization and development of such societies should be drawn up by the State Governments in conjunction with the National Co-operative Development and Warehousing Board, and the training of personnel proceeded with in the light of such programmes.

The important item of development of storage (godowns and warehouses) has already been dealt with in Chapter 35. We have also recommended in that chapter that various steps should be taken by Government for the promotion of co-operative processing societies etc. Some of these may be recapitulated:

(1) As a rule, there should be no compulsory acquisition of processing plants etc., for the purpose of entrusting them to co-operatives. But where members of a co-operative society or persons prepared to form themselves into a co-operative society (the membership, composition, etc., being such as satisfy criteria to be prescribed by the National Co-operative Development and Warehousing Board) offer to subscribe not less than 30 per cent of the share capital and the State Government is satisfied that acquisition is in conformity with the public interest, it may, after notification, compulsorily acquire the concern for the purpose.

(2) State Governments should take steps to license all plants, factories and mills (other than at the cottage industry level) which are engaged in the processing of agricultural commodities or in related activities. They should promote, as soon as possible, the necessary legislation for this purpose. The need for such legislation is reinforced when we take into account the common practice whereby

owners of private ginning factories in particular areas agree between themselves to a common schedule of charges as also to keep a certain number of units idle with the object of eliminating competition, the whole arrangement being of obvious disadvantage from the point of view of the cultivator and the consumer.

We further recommend that, before issuing a licence for a *new* plant, factory or mill in any particular area, Government should ascertain whether any existing co-operative society or one likely to be formed is both willing and in a position to take up the work. In that case, the licence should be issued to the society and not to the private party.

(3) Ordinarily, there should be no compulsory acquisition of godowns and warehouses. Where, however, a godown or a warehouse is situated in a regulated market or other place notified in this context, the acquisition may be compulsory, but on payment of compensation etc.

III. THE STRUCTURE AT THE CENTRAL (OR DISTRICT) LEVEL

(1) GENERAL

General

15. The recommendations made so far deal with co-operative organizations at the apex level. Turning now to the district level, there are three preliminary matters which have to be considered. In the first place, what would be the more appropriate co-operative credit agency at the district level: a branch of the state co-operative bank or a central co-operative bank? Secondly, should this agency, whether it is the branch of the apex bank or the central bank, also deal with long-term credit? Thirdly, is it necessary to have central banks at all in States which are relatively small in size?

As regards the first question, we are in agreement with the view of the Reserve Bank's Standing Advisory Committee on Agricultural Credit that:

> "Other things being equal—in regard to finance, local support, administrative efficiency, etc.—the establishment of a central bank should be preferred to that of a branch of the state co-operative bank. In areas which are relatively undeveloped in the economic and co-operative aspects, the proper course is likely, in many cases, to be to establish branches of the apex banks with such financial assistance from the State Government as may be necessary. In such instances, the policy should be that of eventually replacing the branch by a full-fledged central bank."

As regards the second question, viz., whether the credit agency at the district level should deal with long-term credit also, it is necessary to bear in mind that the central land mortgage bank at the apex of the long-term credit structure of the State can operate only if there is a corresponding machinery at the district headquarters and below. In a State like Madras, for example, which is relatively developed in this respect, this machinery is provided by primary land mortgage banks. The establishment of such banks in the different States, while no doubt necessary to complete the structure of co-operative land mortgage banking, is likely to take an unduly long time in most of these States, because a primary land mortgage bank can come into being only if a sizeable number of actual or potential borrowers in the area concerned are prepared to form themselves into a

co-operative society of the requisite type and provide enough business to enable the primary bank to operate as an economic unit. Until such time as a primary land mortgage bank can be established in a particular area, the lines of organization of long-term credit which we would recommend are as follows:

The central land mortgage bank should, in the first instance, operate in the district through a 'section' of the central co-operative bank or the branch of the state co-operative bank, the transactions being kept entirely distinct and the section functioning as an agent of the central land mortgage bank for the disbursement of long-term loans to individual agriculturist borrowers, all of whom will have to be direct members of the central land mortgage bank. This should, however, be treated as a transitional arrangement. When the long-term loans are sufficiently numerous and the size of business, actual and potential, represents the minimum necessary for the economic working of a separate branch, the section may be converted into a branch of the central land mortgage bank. It is of the utmost importance to ensure co-ordination at this level also between the short-term and long-term credit structures. Thus, the branch should continue to be located in the same building as the central bank. The third and final stage would come when, in course of time, the business expands much farther and groups of borrowers are prepared to form primary land mortgage banks. The branch of the central land mortgage bank could then, if appropriate, be converted into a primary land mortgage bank. Nevertheless, it would continue to be situated in the same building and remain co-ordinated in its working with the central co-operative bank.

The development of primary land mortgage banks, gradually covering different areas and directly affiliated to the central land mortgage bank, will complete the structure of co-operative central land mortgage banking. The primary land mortgage banks will be particularly useful in connexion with land improvement loans. We have already touched upon this point.

Finally, as regards the third point, viz., the need for central banks in States which are relatively small in size, our view is that in such States, the state co-operative bank can deal direct with the primary agricultural credit societies at the rural base.

(2) CENTRAL CO-OPERATIVE BANKS

Central co-operative banks

16. In many ways, the position of central co-operative banks is of crucial importance in the co-operative credit structure. They form an important link between the state co-operative bank and the primary agricultural credit society at the base. At the same time, the central banks in most States are extremely unsatisfactory institutions. It is, therefore, important to draw up for each State plans for the rationalization and strengthening of central co-operative banks in several of their aspects including the financial and the administrative. Our recommendations are as follows:

(a) *General*

We are in agreement with the opinion expressed by the Reserve Bank's Standing Advisory Committee on Agricultural Credit that, ordinarily, there should be only one central bank for each district. If, however, in a particular area, financial and other conditions justify the formation of a bank for a region smaller than a district, there should be no objection to this; the same consideration applies of course to such of the existing central

banks as happen to serve relatively prosperous areas which, though each of them may be smaller than a district, nevertheless provide enough business to render the central bank an 'economic' unit. That, however, in several States, is far from being the case. In all such instances, the amalgamation of the smaller units into one strong unit for the area (normally a district) should be kept unambiguously in mind as the desired objective, a plan of amalgamation drawn up for the area, and the plan vigorously pursued in spite of the objections which the smaller units are bound to raise, as also of all other opposition that may be offered to such a course. Central banks which refuse to co-operate in the plan should be disaffiliated from the state co-operative bank and denied all privileges by the administration. Major State partnership (through the state co-operative banks) in the reorganized central co-operative banks will be a powerful weapon in this context, since it may persuade otherwise recalcitrant institutions to recognize the wisdom of pooling their resources together with those of the State in order to form one central bank for the area which will not only be an economic unit, but also a strong and powerful unit. As tentative 'minimum standards' of owned capital and working capital for economic central banks, we endorse the criteria suggested by the Reserve Bank's Standing Advisory Committee on Agricultural Credit. The standards are as follows:

Paid-up share capital and reserves	About Rs 3 lakhs.
Working capital	Rs 20 to 25 lakhs.

(b) *Administration*

The boards of management of some of the central banks are unwieldy in size and contain a disproportionate representation of 'individuals' as distinguished from societies. It should be possible to remedy these defects quickly and effectively under the scheme of major State partnership. In this case too, State partnership should not imply the nomination of more than a third of the directors by the state co-operative bank. As with state co-operative banks, Government should have special powers to reverse particular decisions of the bank, as also to impose certain decisions, on items falling within the categories of policy already specified.

Further, as suggested in Chapter 34, in so far as State-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank of India should invariably be nominated as one of the members of the board of the particular central co-operative bank.

Some of the central banks have officials as chairmen. We consider that this should be the exception and not the rule. We think that every effort should be made for enlisting the association of suitable non-official co-operators as chairmen of state co-operative banks, central co-operative banks, etc. It is only when, and for as long as, that is found impracticable, that the Registrar of Co-operative Societies, the collector of the district or other appropriate officer should be chairman of any of these institutions.

(c) *Share capital*

We have already emphasized that State partnership (through the state co-operative banks) in the share capital of central co-operative banks, at a level not below 51 per cent, should continue for an indefinite period. Provision should be made for the investment by member societies of prescribed amounts in the share capital of the central bank, such amounts being related to the share capital of the society itself as a specified proportion

thereof. Further, the amounts which societies may borrow from the central bank may be linked to the amount of shares held by them in the central bank as a multiple thereof. In neither case however should the requirement be pressed to the point of compromising major objectives of policy.

The constitution of central banks should provide for the possibility of their contributing to the share capital of primary agricultural credit societies.

(d) *Reserve fund*

As important as the need for adequate share capital is that for adequate reserves. We trust this will engage from time to time the most careful attention of co-operative departments and of the directorates of central banks. Together, share capital and reserves (owned funds) set a limit to the borrowing power of the banks (including borrowings from the Reserve Bank of India), as also to the medium-term finance they can provide out of their own resources.

(e) *Financial operations*

Next, as regards financial operations, it is of the utmost importance that the central banks should give first priority to the requirements of agricultural credit societies. Loans to individuals should be rigidly restricted. They might, for example, be confined to advances against fixed deposits. Loans to merchants and traders, wherever now given, should be eliminated within the shortest period possible.

Subject to the fulfilment of certain prerequisites such as the existence of arrangements for safe custody and for proper valuation, central financing agencies (i.e., central banks and their branches or branches of the state co-operative bank) may issue loans on the pledge of gold and jewellery or against approved securities. (This recommendation is applicable to selected larger-sized primary agricultural credit societies also.)

Individual agriculturists may be admitted as members of central banks as a purely transitional arrangement, pending establishment of co-operative societies in the areas concerned. So far as the land mortgage section of the central bank is concerned, the membership of such agriculturists will pertain direct to the central land mortgage bank with which, however, their dealings will be through the central bank until such time as a branch of the central land mortgage bank (and later perhaps a separate primary land mortgage bank) is formed.

We cannot too strongly deprecate the practice which has developed during and after the last war, and which in some cases still survives, of the central banks taking up trading activities, possibly at the behest of Government, but certainly at risk to their depositors. No central bank should engage in trading activities.

(f) *Margins*

We observe that central banks in several States lend to societies at rates which are much higher than their borrowing rates. This is often the result of a weak financial structure and a low volume of business, coupled with a level of administrative expenses which, though perhaps not too high in absolute terms, is often disproportionate to the turnover of business. Most of these defects should disappear if reorganization takes place on the lines we have recommended. Meanwhile, wherever the 'margin' kept by the central bank is unduly

high, the operations of the institution should come under the special scrutiny of the Registrar and of the inspection organization of the Reserve Bank.

(g) *Relations with primaries*

We would stress that the central banks should build up close and continuous contacts with the primary agricultural credit societies, be sympathetic and responsive to their needs and difficulties and endeavour to assist them to the best of their capacity.

(h) *The sub-divisional level*

It will be convenient to deal here with what may be termed the sub-divisional level of co-operative development, viz., that intermediate to the district and primary levels. It may be remembered that we explained in Chapter 34 that for the effective linking of the higher levels of the structure with the societies at the primary level, it was necessary that the co-operative financing agency at the headquarters should have branches at some intermediate level between the village and the district headquarters, such branches being sought to be established at least at sub-divisional centres to start with and thereafter at other suitable places. We would emphasize that this observation is of particular application to those States in which the co-operative credit structure has not yet reached a fair degree of development. As contrasted with these, there are of course certain States in which the branch expansion of co-operative banks has already, in varying degrees, proceeded beyond the sub-divisional level; for obvious reasons, the relevant recommendations, which may now be briefly recalled, do not apply in their entirety to such States.

The recommendations are these. As stated in Chapter 34, the branches of the central bank (or other central financing agency) should, wherever convenient, be established at the particular sub-divisional centres to which the State Bank of India extends its branches, the two lines of expansion being a matter for overall co-ordination by the Reserve Bank. To facilitate this development on the part of the co-operative agencies, the State Bank of India should, if so desired, make provision in the relevant branch offices for accommodating the branch of the central bank or the branch of the apex bank. As we have noticed, certain further facilities to the co-operative institutions flow from this arrangement. Thus, the branch of the co-operative institution may bank with the State Bank of India wherever such an arrangement is convenient to the co-operative institution. The co-operative bank will then have to maintain the requisite deposits with, or otherwise remunerate, the State Bank of India. The local agent of the latter will, in these instances as in others, be nominated as one of the members of the board of the co-operative bank and exercise all the powers of a director with the exception of the right to vote.

(i) *Urban banks*

It will also be convenient to make a brief reference here to urban co-operative banks which have made appreciable progress in some States, especially in Bombay and Madras. Many urban banks are situated in small towns and to some extent, serve the credit needs of the agricultural population in and around them. Further, in some States, urban

banks are allowed to deal with rural societies in the absence of a central bank for the area. Our recommendations in regard to urban banks are as follows:

(i) In areas where central banks or branches of the apex bank are not functioning, urban banks may be allowed to finance rural societies as a transitional measure.

(ii) In the matter of loans against pledge of gold and agricultural produce, urban banks may be allowed to extend their sphere of operations to villages within a radius of five miles of the area of the towns in which they are located, provided there are no primary agricultural credit societies in the villages concerned. The granting of loans by urban banks against agricultural produce should be allowed only in areas where co-operative marketing societies are not functioning.

(iii) We endorse the following recommendation of the Fifteenth Registrars' Conference (1947): " . . . the surplus funds of urban banks should ordinarily be invested in provincial [state] and central co-operative banks to enable them to finance co-operative societies. Where such investment is not necessary, the Conference recommends that urban banks may be empowered to invest 15 per cent of their surplus funds after providing for fluid resources in such manner as their boards may unanimously decide and in accordance with such terms as the Provincial Government may lay down."

(3) District Marketing Societies

17. The following recommendations relate to co-operative marketing societies at the district level:

(*a*) District marketing societies may be formed either on a territorial or on a commodity basis according to local conditions.

(*b*) There should be a minimum and an optimum level of share capital for each district marketing society. The State Government should hold at least 51 per cent of the share capital of such societies. There will be compulsory contributions from members, in the shape for instance of compulsory deductions in proportion to the turnover of their sales, with a view to increasing the share capital to the optimum level, and thereafter in order to retire the State's part of the share capital until it stands at 51 per cent of the total. Well-organized district co-operative marketing societies may, according to their situation, find it possible to operate also as societies for the processing of agricultural commodities.

(*c*) The State Government should make available the services of suitable technical staff to district co-operative marketing societies.

Our recommendations in respect of district co-operative marketing societies also apply *mutatis mutandis* to certain other forms of co-operative organization of economic activity and in particular to co-operative processing societies.

CHAPTER 37

THE CO-OPERATIVE AGENCY (II PRIMARY): RECOMMENDATIONS

THE most basic part of the programme of co-operative development and one to which in a sense the other parts merely lead is that which relates to the reorganization of the primary society, in particular the agricultural credit society. Our recommendations concerning the lines of such reorganization are set out in this chapter. Four types of primary institutions are dealt with: agricultural credit societies, primary land mortgage banks, grain banks and primary marketing societies.

I. AGRICULTURAL CREDIT SOCIETIES

(a) SIZE

Larger units

2. It is our considered view that the formula 'one society to one village and one village to one society' has failed in India as the basis for the organization of co-operative rural credit. It has failed because its underlying assumptions have proved incorrect. Those assumptions were that mutual knowledge would help to determine, and honorary service help to operate, credit; that the first would be most effectively present, and the second most effectively developed, within the confines of one village. In actual fact, as we have already seen, the compactness of size has not been accompanied by any of these other features. Their presence would have invested it with real significance; but, divorced from them, it has only served to come in the way of alternative courses of reorganization such as the replacement at the primary base of 'honorary services' by competent paid staff and of small uneconomic turnover by larger units of business. For these reasons, we recommend that the future line of development of co-operative credit at the level of the village should be unhesitatingly in the direction of bigger societies covering larger areas. In other words, primary agricultural credit societies should hereafter be established (and wherever necessary, and as and when suitable, existing ones reorganized) so as to cover, according to local conditions, groups of villages with a reasonably large membership and a reasonably adequate share capital. The headquarters of the larger-sized primary credit society, new or reorganized, should be conveniently located for the people of the villages comprised in its jurisdiction; if there is a marketing centre in the area it should, if possible, be located at that centre. As a rule, the area of operation of the society should be such as to provide it with adequate business. Among exceptions to the rule would be villages in sparsely populated tracts where an adequate area from the point of view of business would imply too large a jurisdiction for the paid secretary or others in charge of the executive duties of the society. In such cases a compromise would have to be struck between the two considerations.

In making this recommendation regarding the optimum size of primary societies, we should not be understood as suggesting that all existing agricultural credit societies should,

without distinction, be brought under schemes of reorganization. In particular, there should be no interference with societies which are working satisfactorily in the sense that they not only disburse fairly adequate credit, but disburse it in a reasonably equitable manner to the different classes of cultivators. Reorganization of existing societies, in so far as it arises in this context, should, as we have already indicated, be attempted only where necessary and as and when this can be suitably done, i.e., without considerable dislocation. A phased programme of reorganization, confined to contiguous societies which would gain by amalgamation, would therefore be appropriate. In regard, however, to fresh registrations of primary agricultural credit societies, the model adopted in regard to size etc., should, by preference and to the maximum extent possible, be the larger-sized society here recommended. In particular, there should be a concerted drive to organize such societies in selected areas such as those in which Community Projects or National Extension Service Blocks have been in operation or are about to be established.

In the following paragraphs are indicated the broad features we consider appropriate for the larger-sized primary agricultural credit society. Some of the suggestions, as will be seen, are applicable to all agricultural credit societies and not merely the larger-sized ones.

(*b*) MEMBERSHIP

Freer admission

3. The membership of agricultural credit societies in general, larger-sized or small, should be open to all persons residing in the areas of their operations. Further, as recommended in the previous chapter, a person who is refused admission to the society should have the right to appeal to the Registrar of Co-operative Societies.

(*c*) LIABILITY

Limited liability

4. The larger-sized primary agricultural credit society should be established on the basis of limited liability. This is inevitable because of the bigger area of operation, the larger coverage of classes of cultivators and, generally, the wider sphere of activities. The liability of the members may be limited to the value of shares held by them or, preferably, to a certain multiple thereof.

(*d*) SHARE CAPITAL

Stronger share capital

5. Each of the larger-sized societies should have an initial minimum level of share capital which should be raised, in a specified period, to an optimum level. The central co-operative bank should initially contribute to the society whatever amount is necessary for ensuring that the total share capital is not below the minimum level; for this purpose, the State Government should make the needed finance available to the state co-operative bank (e.g., in the shape of additional share capital) to enable it to provide funds to the central co-operative bank. Until the optimum level is reached, there should be compulsory contributions from members together with proportionate contribution by Government through the state and central co-operative banks. After the optimum level is reached, the contributions derived from Government should cease; but compulsory contributions from members should continue for the specific purpose of retiring the whole of the Government-derived contribution within a suitable period, so that at the end of it these societies would be fully co-operative even in the

orthodox sense of the term. Contributions and retirement should proceed on a planned basis; the shares of the society should be of suitably small denominations.

(*e*) MEMBERS' DEPOSITS

Fixed and savings deposits

6. As a rule, only fixed deposits should be accepted by the primary agricultural credit societies, and current deposits confined to the apex and central banks and their branches. In selected instances, however, a primary society may be permitted to operate savings accounts, and accept deposits for the purpose, on behalf of the bank to which it is affiliated. It should be paid suitable commission for its work as agent.

(*f*) SOCIETIES' DEPOSITS

Deposits of societies' funds with central banks

7. We suggest that agricultural credit societies in general should be encouraged to deposit their funds with central banks. The latter may, where appropriate, consider the desirability of paying on such deposits a rate of interest which is slightly higher than its normal rate.

(*g*) RESERVES

Allocations to reserves

8. There should be annual allocations to reserves out of profits. This is especially important if primary agricultural credit societies generally, and the larger-sized ones in particular, are eventually to inspire enough confidence to be able to attract adequate deposits.

(*h*) BORROWING LIMITS

Owned capital and borrowing limits

9. The maximum borrowing limit of the larger-sized primary agricultural credit societies should be fixed at a certain multiple of their paid-up share capital and reserves.

(*i*) LOAN OPERATIONS

Crop loans

10. In regard to loan operations, our emphasis is on crop loans, of which the need and the characteristics we have already described. Some of the details are dealt with here. There are various precautions which it is possible to take, and which should be taken, in working the system of crop loans. Some of them may be enumerated along with certain steps which it is for the State to pursue.

In the first place, the amount of the crop loan should be so fixed as to be an adequate proportion of the cash outlay per acre of crops. On that basis it will also of course, in the bulk of cases, bear a reasonable relation to the value of the crop.

Secondly, wherever appropriate, the loans may be given in suitable instalments instead of as a lump sum at the start.

Thirdly, the loans should be in kind to the maximum extent possible.

Fourthly, certain legal safeguards are possible. We endorse the recommendation of the Agricultural Finance Sub-Committee that, "While credit societies should not ordinarily attempt mortgage finance they should be enabled to have a statutory charge

on the crop for the seasonal finance given to buttress personal security ".[1] When such a charge has been created by the borrower, it should not be alienable without the permission of the society. A prohibition of this kind was, for example, incorporated in the Bombay Co-operative Societies' Act when it was amended in 1948. Earlier, a similar provision had been made in the Bombay Agricultural Debtors' Relief Act. We suggest that State Governments should consider the desirability of enacting similar legislation so as to induce the prompt repayment of crop loans given by co-operative societies.

Apart from legal safeguards, the success of the crop loan system is to a large extent dependent on adequate supervision and efficient arrangements for recovery. It will be for the primary society and the central bank, together, to provide for both. The question of supervision generally will be dealt with in the next chapter. The development of co-operative marketing on the lines we have recommended, side by side with the crop loan system, will—in any area where this takes place—make a most significant difference to the effectiveness of recovery as well as to the success of the system itself.

Rationing of loans

11. In connexion with all types of short-term accommodation (including crop loans) at the primary stage, one fairly general problem will be that of having to 'ration' the available funds when they fall short of legitimate credit requirements. Such rationing should be in favour of the medium and small cultivators. Thus, it may be arranged that, while the member whose holding is relatively small gets 100 per cent of his demand, the one with the larger holding gets only 60 per cent or 70 per cent. If the latter has a fixed deposit in the society he should, of course, in addition, be entitled to borrow against it, this facility being made available whether or not the loan against the deposit is for a productive purpose.

Medium-term loans

12. Apart from crop loans, the primary agricultural credit societies may provide medium-term loans for productive purposes to the extent of their owned resources, in the shape of paid-up capital and reserves, together with such medium-term funds as they are able to obtain from the central financing agencies. The period of these medium-term loans should not exceed five years.

Needs in kind

13. Agricultural credit societies may also supply the members' requirements for crop production such as seed, cattle-feed, fertilizers and agricultural implements. Where suitable, they may also supply basic, but standardized, consumers' goods (sugar, kerosene, matches, etc.) on the basis of indents or of established demand; we endorse the recommendation of the Fifteenth Registrars' Conference (1947) that the Registrar may permit a society to resort to the system of outright purchase and sale (as distinguished from the 'indent' system) to the extent of twice the paid-up share capital, provided its size, financial strength and soundness of management permit.

Loans on gold etc., and consumption loans

14. Subject to the fulfilment of certain prerequisites, especially the existence of arrangements for safe custody and proper valuation, selected larger-sized primary agricultural credit societies may (as mentioned in the preceding chapter) issue loans on the pledge of gold and jewellery or against approved securities. We have elsewhere dealt with the functions of the larger-sized primary agricultural credit society *vis-a-vis* the

[1] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 49.

specific types of consumption needs (marriages, illnesses, etc.) of the regular members as well as of others—handicraftsmen and labourers no less than cultivators—through the institution of a chit fund run by the society.

Link with marketing

15. As we have more than once stressed, the system of crop loans cannot be regarded as really effective and complete unless integrated, within the larger system, with co-operative marketing. There should, therefore, be a close link between primary agricultural credit societies and marketing societies. The primary society should finance its members on the condition that the produce of the member is sold through the marketing society with which it works in co-ordination. As pointed out by the Co-operative Planning Committee, the primary agricultural credit society will act as agent for the sale of the produce to the nearest co-operative marketing society, assemble the produce of its members, supervise, and, if necessary, arrange for the transportation of the produce.

Staff

16. Finally, every larger-sized primary agricultural credit society should have a paid, full-time, qualified secretary who has, if possible, been trained under the scheme of the Central Committee for Co-operative Training. As recommended elsewhere (Chapter 38), it would be desirable for the State Government (in some instances the state co-operative bank) to have within its own subordinate cadre a nucleus of suitably qualified and trained persons who can be deputed—on the basis of 'loan' of services—to different societies.

II. PRIMARY LAND MORTGAGE BANKS

Stages of development

17. In those States in which land mortgage credit is yet to be developed on the co-operative basis, the central land mortgage bank will be the first to be organized, then 'sections' and branches in the districts, and last of all primary land mortgage banks. The development at the primary stage, in this long-term sector of agricultural credit, has been placed last by us not merely as a priority of organization, but because local business and local response must be available before there can be said to be scope for the successful establishment of a primary land mortgage bank. In formulating a sequence which seems to us inevitable in the circumstances, we should not be understood as in any way minimizing the desirability of developing these institutions at the primary level. On the contrary, we believe that primary land mortgage banks can play a useful part in the examination of loan applications for improvement of land and in the supervision of the use of such loans; and prima facie, they can discharge these functions with more local knowledge and to that extent more effectively than branches of central land mortgage banks. For this reason, however slow their development on any extensive scale, it should be ensured that the development is not avoidably slow.

Primary land mortgage banks will also be useful in popularizing schemes of land improvement and 'rural debentures'. Further, they can play a very useful part in the elimination of delay in the disposal of applications for long-term loans and, in particular, in carrying out the recommendations made in the previous chapter about 'premature' loans, that is, disbursement of loans for land improvement based on a preliminary investigation of title.

Before organizing primary land mortgage banks, however, there should be a careful enquiry into the conditions of each area such as the volume of business available, whether

there are sufficient number of persons willing to come forward to form primary land mortgage banks, and the nature of holdings, tenures and facilities for irrigation.

The area of operations of a primary land mortgage bank should, on the one hand, be compact so as to enable it to maintain close touch with the borrowers and, on the other, not so small as to render the bank an uneconomic unit in relation to the volume of business available. State partnership in primary land mortgage banks should follow the same broad lines as that in the larger-sized primary agricultural credit societies; the Government contributions will be, for instance, in the form of an addition to the share capital of central land mortgage banks which will take up the shares of primary land mortgage banks.

III. GRAIN BANKS

Grain banks

18. In the relatively undeveloped areas, especially those peopled by backward or tribal classes, the organization of grain banks should be undertaken. Reference may be made here to experience in the Bombay State. The success of the grain depots started in Thana as early as 1905 led to the extension of the scheme to other districts such as West Khandesh, Nasik and Kolaba. The grain depots are divided into two categories. In the first category, the borrowing members are required to repay the loans with an addition of 16$\frac{2}{3}$ per cent in kind, towards interest; in the latter category, loans are required to be repaid with an addition of 25 per cent in kind, out of which 16$\frac{2}{3}$ per cent is credited towards interest and the remaining 8$\frac{1}{3}$ per cent to the share amount of the borrower. The total number of grain depots as on 30 June 1951 was 1,456. According to the orders of the Government, the position of these depots is to be examined by the audit staff of the Co-operative Department; such of the depots as can be registered under the Co-operative Societies' Act are converted into co-operative grain societies. The total number of grain depots converted into grain societies at the end of 1951-2 was 76. Apart from these grain societies for the aboriginal areas, there are grain banks in other areas also. The total number of grain banks and societies in 1951-2 was 269, as many as 167 being situated in Kolhapur District where such organizations are reported to have attained popularity among small holders and agricultural labouring classes.

It is necessary to emphasize the need for making proper arrangements in regard to the management of the grain banks, especially with regard to the maintenance of accounts and prompt collection of grain loans. The organization of grain banks for the relatively undeveloped areas will have to be sponsored and run by the State Government and preferably through the co-operative department. Careful attention should be paid to the audit of accounts as well as to the collection of dues and general supervision.

IV. PRIMARY MARKETING SOCIETIES

(*a*) GENERAL

19. We recommend that primary marketing societies should be established at either important *mandis* (wholesale markets) or at taluka centres (sometimes the two would coincide), as convenient.

Before starting a primary marketing society, however, it is necessary to study the relevant conditions of the particular area concerned (e.g., marketable produce available, present

arrangements for marketing, etc.). Every precaution should be taken to ensure maximum chance of success. Thus, primary marketing societies (as also co-operative societies for processing and for other important economic activities) should, to start with, be organized only in selected places, i.e., cautiously and with a view to assured success. We may recall what the Royal Commission on Agriculture said in this context: "Experience has shown that great care is required in the organization of sale societies. Skilled technical advice and guidance are necessary but even more important is proper business management. Unless this is available, the society must inevitably come to grief. Even when it is forthcoming, other difficulties arise, the most formidable of which is usually the opposition of local vested interests."[1] Under the scheme recommended by us, there would be forthcoming from Government not only the requisite contribution to share capital to make the primary marketing society financially strong, but also an adequate provision of trained personnel for performing various technical functions.

(*b*) MEMBERSHIP

Membership

20. It is necessary to ensure by positive State supervision that every marketing society at the primary level is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests adequately looked after by those in charge of it.

(*c*) SHARE CAPITAL

Share capital

21. Government should ordinarily make a direct contribution to the share capital of primary marketing societies; this will be necessary because, in most States, district and apex marketing societies are either non-existent or inefficient; when these are established, or are operating efficiently (but not till then), the State Government's contribution could be channelled through them as in the parallel case of the co-operative credit structure. There should be a minimum share capital as also, by way of target, an optimum one. Government's part of the share capital should commence to be retired after the optimum is reached. At all these stages there should be compulsory contributions to the share capital from the members of the society. Each such contribution should be related, as a percentage, to the turnover of the member's sales through the society or, alternatively, to the size of the loan taken by the member (from, e.g., a credit society with which the operations of the marketing society or processing society are co-ordinated).

(*d*) FUNCTIONS

Functions

22. The main function of a primary marketing society will be to market the produce of its members. It may take up the functions of pooling and grading and, in particular, also of processing wherever appropriate.

For dealing with important crops such as cotton, sugar-cane, wheat, jute, groundnut, etc., in areas where they form the most important crops, it may be necessary to set up separate marketing societies crop-wise instead of region-wise. In other instances, however, a general marketing society should ordinarily suffice. At each centre where a marketing society operates there should be either a larger-sized primary agricultural credit society

[1] *Report of the Royal Commission on Agriculture in India*, 1928, p. 471.

or a branch of the central co-operative bank, so that credit and marketing may be effectively linked.

(*e*) REGULATED MARKETS

Regulated markets

23. As elsewhere recommended (Chapter 35), at centres to which the All-India Warehousing Corporation or a State Warehousing Company has extended its operations, the management of the regulated market should be statutorily entrusted to this institution. A local advisory committee may be appointed to assist the officer of the institution at such places. Further, as also previously mentioned, as long as a regulated market continues to be managed as at present, i.e., by a market committee etc., under the existing law, provision should be made for the nomination on the committee of one or two representatives of the co-operative marketing and banking institutions, if any, of the locality. By a parallel arrangement, these should be on the advisory committee wherever the new arrangement comes into force, i.e., when the regulated market has been taken over by the All-India Warehousing Corporation or a State Warehousing Company.

CHAPTER 38

THE CO-OPERATIVE AGENCY (III PERSONNEL, SUPERVISION AND AUDIT): RECOMMENDATIONS

Introductory

FOR the effective implementation of the integrated scheme, in so far as it falls within the purview of the co-operative agency, the foremost need is adequate personnel. The adequacy required pertains to many things, e.g., number, training and above all the quality of responsiveness to the needs of what in effect is a new type of job to be done. Some of these aspects, in relation to the training of co-operative and other personnel, form the subject of Chapter 39. The question of personnel is here considered in the context of the technical and administrative needs, under the integrated scheme, of co-operative institutions and departments. Apart from the usual administrative functions and some of the more specialized technical functions, two important duties with which part of the personnel will be concerned are supervision and audit. These too are dealt with in this chapter.

I. PERSONNEL FOR CO-OPERATIVE INSTITUTIONS

Personnel

2. With the State as the major partner in co-operative institutions up to and including the sub-divisional level and sometimes beyond that (directly at the apex level and indirectly elsewhere), it will be possible to rectify a very serious weakness of the co-operative movement, namely, a staff which, broadly speaking, is inadequate, ill-qualified and poorly paid. It is obvious that the position is bound to remain the same as long as each of a number of societies and banks, many of them weak and most of them unco-ordinated, has to find for itself its managerial, technical and other staff. Under the new arrangement it will for the first time be possible, wherever needed, to have common cadres of different grades and technical qualifications. In other words, to the extent necessary, these cadres can be instituted by Government (or, as explained later on, by the state co-operative bank) as part of its own services and the personnel loaned to the different institutions which will now acquire a unity of structure under State partnership. The loan of services should be on terms which do not place an undue burden on the co-operative institution; e.g., leave and pension charges could be waived and, where warranted, a part of the salary itself met by Government.

It is necessary to make it clear that it is not our suggestion that existing personnel of co-operative institutions should be replaced extensively by persons belonging to the Government cadres. Well-managed institutions, with experienced and competent staff, should of course not be disturbed at all; where the existing staff needs training, this should be arranged for under the scheme of the Central Committee for Co-operative Training; and, in suitable instances, some of the existing personnel could no doubt be

absorbed in the Government cadres themselves (or, as the case may be, in the cadres of the state co-operative bank). The problem really arises in respect of (1) badly or indifferently run institutions, with ill-trained or incompetent staff, especially on the occasion of these institutions being reorganized under State partnership and (2) new institutions which will be set up either under State partnership or with active participation by the State. It is in relation to contingencies such as these, and generally in the context of the large requirements of additional personnel—properly selected, well trained and competent—which will underlie all State programmes for the reorganization of co-operative credit, processing, marketing, etc., that we suggest the creation of an adequate pool of trained officials, partly for the State Government's own needs and partly for deputation to co-operative institutions. In this matter, account will have to be taken of the needs of co-operative institutions, credit and other, to which it would be desirable to lend the services of trained personnel until such time as these institutions are placed on a sound footing and can commence employing their own trained personnel. In most States, however, this latter development is likely to take a long time and, meanwhile, the provision of trained staff especially for the key posts of the institutions is of the utmost importance. The loaning of personnel for some of these posts may, where appropriate, be the function of the state co-operative bank which accordingly will have to enlarge its own cadres for this purpose; but this would be possible only in the very few States in which the state co-operative banks are themselves well developed and efficient. Elsewhere, part of the trained staff of even the state co-operative bank, for important posts, will have to be provided by the State Government. (For marketing, processing, etc., as distinguished from credit, the function of providing technical personnel will necessarily devolve on State Governments and not on state co-operative banks.) These considerations will have to be borne in mind in the reorganization of the cadres of State Governments and of state co-operative banks.

We recommend that State Governments should institute two broad divisions in their Co-operative Services, one 'Administrative' as at present, and the other 'Technical', each composed of three cadres: Class I, Class II and Subordinate.

The State Co-operative Administrative Service (Class I and Class II) will be responsible (as it already is in many States) for carrying on the normal administrative duties of the co-operative department such as administration and audit.

From the Subordinate Co-operative Service (Administrative) may be deputed selected officials to serve as secretaries of the larger-sized primary agricultural credit societies wherever that is necessary and feasible. Such an arrangement, viz., deputation of properly trained personnel to suitable larger-sized societies would be particularly useful during the difficult period of initial reorganization.

The State Co-operative Technical Service (Class I and Class II) will consist of specialized staff (e.g., financial advisers, managers of co-operative banks, technical personnel connected with marketing, industrial co-operation, processing, dairying, etc.) who can, where necessary, be deputed to serve in institutions above the rural base.

The Subordinate Co-operative Service (Technical) will also consist of trained technical personnel, but they are meant for institutions at the primary level which require specialized staff, e.g., primary marketing or processing society.

The training of all these Services should be organized by, or under the guidance of, the Central Committee for Co-operative Training, working in conjunction with State Governments.

We recommend that these Services should be set up by the State Governments as early as possible.

II CO-OPERATIVE DEPARTMENT

Co-operative Department

3. The head of the Co-operative Department is the Registrar of Co-operative Societies. He occupies a key position in the administrative structure of the Movement. A well-known passage in the Report of the Maclagan Committee bears repetition:

> "Under the Act it is the duty of the Registrar to receive and enquire into applications for registration; to register the by-laws of societies and amendments to them; to audit the accounts or cause them to be audited; to make a valuation of the assets and liabilities of societies, and prepare a list of overdue loans; to see that the Act, rules and by-laws are observed; to make special inspections when called upon to do so; to dissolve or cancel societies and to carry out their liquidation. In order to fulfil his duties he must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices both throughout India and in his own Province; he must know the principles and methods of joint-stock banking; and must examine the systems of developing thrift and inculcating Co-operation which have been tried in other countries. He is also head of a teaching establishment, and must devise effective means for impressing a real knowledge of Co-operation on the bulk of the population. He has further to control a large staff, to draft model by-laws and rules, to collect statistics and write reports, to advise Government on various subjects, and to keep in close touch with the higher finance of the Movement as managed by provincial banks and central banks. In addition to this he must attend conferences, co-operative and agricultural, must keep in constant touch with markets, with honorary organizers and other well-wishers and various departments of Government, and must undertake a certain amount of writing and reading for the official press and for co-operative journals. . . . It must further be remembered that there is no finality in the Registrar's work and he can never feel that it has been cleared off and brought up to date He will always feel the need of wider reading and of giving more and more supervision and teaching to his societies. New means and methods to attain fresh ends must constantly be discussed and devised. His work is, moreover, highly responsible, involving a watch over large sums of money deposited by the public and a share in the responsibility for the economic fate of a Province. It can well be realized that few officers are entrusted with work more serious or more exacting."[1]

In the context of the very extensive programme of co-operative development recommended by us, the importance of the Registrar will, if anything, be even greater than envisaged by the Maclagan Committee. We endorse the following observations and recommendation of the Co-operative Planning Committee (1946):

"He [the Registrar] should not only be a man of outstanding ability but should

[1] *Report of the Committee on Co-operation in India*, 1915, p. 94.

also be temperamentally suited for the work of running a popular movement of this kind. Before he assumes charge of the post of the Registrar, he should undergo a thorough training and should work for at least two years as Deputy or Joint Registrar. During the course of his training as well as during his tenure of office he should be allowed opportunities to study the working of the Movement in other Provinces and outside India. . . . In view of the responsible nature of the duties of the Registrar, he should enjoy a higher status than he does at present; in our opinion he should rank with the heads of such departments as Police and P.W.D for general purposes. He should also have a longer term of office than at present. In this connexion the Royal Commission on Agriculture recommended that a Registrar, once appointed and proved efficient, should hold that office for at least five years, on the assumption that he had already had two years' service as Assistant or Joint Registrar. We observe that in some Provinces Registrars are changed at short intervals. The work in connexion with the co-operative movement is becoming increasingly technical and it is necessary that sufficient time should be given to the Registrar to study it and to formulate and execute policies. In our opinion, therefore, his tenure should be for about ten years. As such a long term of office is likely to make the officer senior enough to be due for promotion to posts carrying higher emoluments, we recommend that he should be fully compensated for holding the post till the end of the term."[1]

It would be advantageous from many points of view if the subjects of Co-operation Agriculture and Cottage Industries (as well as Industries generally) were combined in one department in the secretariat of each State Government and placed in charge of a senior Secretary, who might also be Development Commissioner. The Registrar would then work under the Development Commissioner-cum-Additional Secretary, as also would the Director of Agriculture etc. It would be a further advantage if all the subjects mentioned were combined in the portfolio of one Minister.

III. SUPERVISION AND AUDIT

Distinction between supervision and audit

4. It is important to bear in mind the distinction between the proper functions of supervision and audit as these have come to be recognized in the practice of Co-operation in this country. Supervision is a continual process; audit is sometimes 'concurrent', but usually periodical. Even though supervision covers many points which are included in audit, it implies in addition the duty of imparting to members of societies a working knowledge of co-operative principles. Not infrequently the supervisor has also the function of organizing new societies and of generally propagating the Movement. Moreover, supervision has the important aim of promoting, and not merely testing, the efficiency of a society; it seeks to ensure that the defects noted at the audit have been rectified and that the operations of the society, and particularly the disbursement of loans, are undertaken on business-like and genuinely co-operative lines. The functions of supervision, in this sense, should of course also be distinguished from those of office inspection of co-operative organizations usually undertaken by the staff of the co-operative departments as part of their normal administrative duties.

[1] *Report of the Co-operative Planning Committee*, 1946, p. 155.

Supervision: present position

5. Some of the salient features of the present arrangements for supervision may be mentioned before we proceed to make our recommendations.

In the first place, there is lack of uniformity with regard to the system of supervision. In some States such as Madras and Madhya Pradesh, supervision is done by non-official bodies. In Madras, for instance, central banks undertake the work of supervision through a separate staff maintained for the purpose, but in addition there are in many areas what are called 'supervising unions' consisting of representatives of societies in a compact area. In certain States in which Co-operation is not yet well developed (e.g., PEPSU and Himachal Pradesh), the functions of supervision and audit are combined in one official agency. In other and more developed States, there is in some instances a mixed system under which the machinery for supervision is neither fully official nor fully non-official, but is a combination of the two. In Bombay, for instance, the machinery consists of taluka supervising unions, district supervision committees and the Provincial Board of Supervision. The Board is appointed by the Government and it consists of eleven members representing various co-operative institutions in the State. The Registrar of Co-operative Societies is the chairman of the Board, and the Joint Registrar is the member-secretary. The supervisors are treated as temporary Government servants. The total strength of the supervision staff stood at 300 at the end of 1951-2. During that year, the Government made 200 of these posts permanent and pensionable.

Secondly, there is no uniformity in the arrangements for financing supervision. In some States, Government meets the entire expenditure; in certain others, co-operative supervisory agencies pay the staff from their own resources which, in a few instances, are supplemented by a small levy on the societies which are supervised. In many States, however, the expenditure on the supervisory machinery is met partly by Government and partly by the co-operative institutions, Government assistance taking the form of recurring annual grants.

Thirdly, the existing staff for carrying out the duties of supervision is usually inadequate. In the majority of States, there is a disproportionately large number of societies in the charge of one supervisor. He is not able to pay frequent and regular visits to the societies; even on the occasions on which he does undertake a visit, he is often not able to devote enough time to his work.

Fourthly, it would appear that in consideration of the nature of their work and responsibilities, the qualifications of the staff leave much to be desired; the pay and allowances of supervisors are usually poor and fail to attract the right type of personnel.

Thus, the present arrangements for supervision are for the greater part defective and unsatisfactory.

Supervision: recommendations

6. Supervision, in our opinion, should be invariably treated as the legitimate function of apex banks and co-operative central banks. They are well fitted for this role because of the intimate relations which may be expected to exist between them and the societies. Besides, as financiers of the societies, they have to safeguard their own interests and ensure the soundness of the operations and solvency of the societies. The criticism that

the financier's interest is likely to preponderate over the interests of societies which are to be supervised loses its force when the financing bank consists, as it should, largely of representatives of the societies to be supervised.

In States where the co-operative movement is well developed we consider that the staff for supervision may be engaged by the state co-operative bank itself. Elsewhere the supervisors should be appointed by Government as part of one of its cadres, and their services made available, on the basis of deputation, to the co-operative central financing agencies. In either case, provision should be made for an adequate number of supervisors.

The recommendations made above also apply to personnel of higher grades, e.g., managers etc., of apex and central banks.

Audit: present position

7. It is one of the statutory duties of the Registrar of Co-operative Societies that his department should audit all co-operative societies once a year.

Audit is of various kinds such as 'concurrent' audit, 'interim' audit, 'final' audit and 'test' audit. Types of audit other than statutory final audit, e.g., concurrent and interim audit, are not in vogue in many States.

In certain States, the audit is either wholly or mostly departmental. In others, departmental and professional audit exist side by side. It may be added that audit by professional auditors is generally confined to a few big institutions such as state co-operative banks and central banks. We are of the view that professional audit should not replace departmental audit, since efficient co-operative audit implies an acquaintance with the co-operative background and special co-operative requirements. At the same time, in certain instances, there would be definite advantages if departmental audit was supplemented by professional audit. This would be particularly so in the case of apex organizations, the bigger central banks and some of the societies engaged in 'business' (e.g., important marketing and processing societies).

Audit is usually not free of cost to the societies whose accounts are audited; an exception to this rule is the audit of certain types of societies such as those which have been newly established or which operate in areas inhabited by economically backward classes or which are constituted principally for discharging the function of supervision.

The general complaints about the present arrangements for audit are that the staff is neither adequate nor well trained and that the audit is in several States heavily in arrears. The position regarding arrears is particularly bad in certain States. Thus, the percentage of the number of societies left unaudited in 1951-2 to the number of societies scheduled to be audited was as high as 87.2 in Manipur, 71.1 in Bihar, 51.0 in Rajasthan, 49.1 in Assam, 46.7 in Saurashtra, 46.4 in PEPSU, 40.7 in West Bengal, 37.0 in Himachal Pradesh and 29.3 in Ajmer.

From the available information, it would also appear that sufficient attention has not been given in many of the States to the qualifications of the audit staff.

Audit: recommendations

8. Our recommendations regarding audit are as follows:

(i) Audit (along with office inspection of co-operative organizations) should continue to be in the hands of Government.

(ii) Where there is a Development Commissioner, the Chief Auditor of the co-operative department should be responsible to him and not to the Registrar.

(iii) The existing audit staff needs to be considerably strengthened in most States. This requirement should be given a high priority.

(iv) Co-operative institutions should usually, during the first few years of their existence, be exempted from payment of audit fees. The period of exemption should be specified in the rules. This recommendation, while of general application, may be stressed as of special importance in regard to agricultural credit societies.

(v) For apex and central banks, big urban banks and other types of institutions with a large turnover, there should, as far as possible, be arrangements for concurrent audit. For all primary societies, there should be an interim audit (not as detailed as the final audit) at intervals of six months.

(vi) Rectification of defects revealed by audit is seldom satisfactorily ensured. The audit section should arrange to verify periodically that the defects pointed out are being promptly rectified.

(vii) A co-operative audit manual should be drawn up for each State.

(viii) There should be uniform standards of audit classification on an all-India basis in respect of different types of co-operative organizations. The existing standards are so varying as to cause a great deal of confusion; what is considered a very good bank or society in one State is not necessarily so classed in another State. This matter is of particular significance in the context of accommodation from the Reserve Bank of India because, according to the procedure followed by the Reserve Bank, only 'A' and 'B' class central banks are ordinarily eligible for such accommodation. Thus, if these facilities are to be made available on a proper basis, it is necessary that the standards denoted by 'A' and 'B' should be more or less the same throughout India. Hence the Agricultural Credit Department of the Reserve Bank has, in conjunction with the Reserve Bank's Standing Advisory Committee on Agricultural Credit, been attempting to evolve a uniform system of audit classification of co-operative banks. Some States have signified their acceptance of the standards suggested. These efforts should be further pursued.

We have elsewhere (Chapter 33) dealt with the desirability of the Agricultural Credit Department of the Reserve Bank further extending its newly instituted system of inspection of co-operative banks and societies. We have also there indicated what in our view should be the scope and nature of such inspection.

CHAPTER 39

THE TRAINING OF PERSONNEL: RECOMMENDATIONS

Introductory

ON few things will the success of the integrated scheme depend so much as on finding the right men and giving them the right training. We have noted in this context two important developments initiated by the Reserve Bank: (1) the establishment of the All-India Co-operative Training Centre at Poona and the further extension of training facilities in various directions, and (2) the arrangements, now far advanced, for setting up a Bankers' Training College for commercial banks. For the first of these items, it will be recalled, a Central Committee for Co-operative Training has since been established, which acts for both the Reserve Bank and the Ministry of Food and Agriculture. Financed by the Reserve Bank for the discharge of one part of its functions, the Committee is in charge of the planning and organization of training at the higher and intermediate levels, both departmental and institutional. Under the Ministry of Food and Agriculture, and in collaboration with State Governments and co-operative institutions, the Committee has also specific responsibilities for planning and promoting the organization of training at the subordinate level; it is on its advice that grants-in-aid in this context will be made by the Central Government. Our recommendations in this chapter are largely concerned with this Committee. The task before it is a big one; it is also many-sided and in some ways as novel as it is important. For, what is involved is no less than the creation by the State of a large body of trained and enthusiastic workers, both men and women, who are willing to share the life of rural India, strive to understand the needs of all classes including the weakest, and, in administering to those needs within the particular sphere allotted to them, prove themselves business-like and efficient no less than keen and sympathetic. The total range of personnel to be trained is of course much wider than this, and the task itself is by no means confined to that which falls to be discharged by the Central Committee. A sufficiency of trained technical and administrative talent has to be brought into being, firstly, for the whole of that structure of Co-operation which is concerned with administration, banking, marketing, processing, cottage industries, etc.; secondly, for a most important sector of commercial banking represented by the State Bank of India; and thirdly, for the semi-Government corporation and auxiliaries represented by the All-India Warehousing Corporation, the State Warehousing Companies, and their institutional network of warehouses and godowns. The task does not end there; for there remains that extremely important aspect of it which is related to the need to organize training for the members, directors and office-bearers of co-operative societies, co-operative banks and other co-operative institutions, and educative propaganda for these as well as the whole body of honorary co-operative workers and the public generally. For only then, in conjunction with other factors, will there open out the prospect of the eventual growth of a wholly non-official State-strengthened

Co-operation out of the proposed partly official State-partnered Co-operation. Side by side with the generation of real enthusiasm in the village—which we believe will accompany the cultivator's participation in the various types of co-operative economic activity in which he is directly interested—must therefore go the complementary process of educating and developing non-official leadership at different levels of the co-operative movement and, in particular, at the all-important base of that movement which ought to be the village itself. Our recommendations thus concern

(1) the training of the official personnel, higher, intermediate and subordinate, of co-operative departments and institutions; co-ordination between this training and the one organized for the staff of commercial banks; co-operative training designed for non-official workers and office-bearers, together with co-operative education and propaganda for these as well as the public generally;

(2) the training of the personnel of the State Bank of India; and

(3) the training of the personnel of the All-India Warehousing Corporation and its auxiliaries, including that of the co-operative societies concerned with storage and warehousing.

Officials and non-officials

2. As regards the first of the items mentioned above, we would refer to certain lines of organization already formulated by the Central Committee for Co-operative Training. Briefly, the Committee has related its immediate programme to three sets of requirements, viz., those pertaining to

(*a*) all-India arrangements for training higher personnel;

(*b*) regional arrangements for training personnel at the intermediate level; and

(*c*) State-wise arrangements for training subordinate personnel.

For the time being at any rate, the Committee contemplates one centre, as at present, for the all-India sector of training; this centre will continue to be located at Poona, and will provide training for 35 to 40 candidates every six months. (The previous number was about 20.) There will be special courses for some of the more important types of co-operative activity and organization. We have already referred to the substantial concessions proposed to be given in the shape of exemptions from fees, grant of stipends, payment to meet the cost of touring, etc., as part of the scheme for higher and intermediate personnel, in order that no avoidable reluctance on purely financial considerations may be occasioned on the part of the State Governments or (even more important) on that of co-operative institutions whose financial resources are never large and often very small. We endorse this far-sighted and realistic policy and trust that State Governments and co-operative institutions will make the maximum possible use of the expanded facilities about to be made available. We also recommend that special courses should be provided without delay for co-operative banking and co-operative marketing (and processing), and, as soon as possible after that, for the subject of industrial co-operatives as well. The courses for co-operative banking should include special training arrangements for the important subject of land mortgage banking. All these special courses should be available, in the appropriate form and degree, at each of the three levels concerned, viz., higher, intermediate and subordinate.

We have mentioned the concept of a positive rural bias as underlying the whole of our programme; it is necessary that this should be properly incorporated in the programmes of training; even more will it be necessary to select the right type of candidates at the very start, for to that extent it will be easier to inculcate the sympathies, attitudes and habits of thought essential for the undertaking of the programme in view. We do not propose to dwell on the radical changes which will undoubtedly be necessitated, so far as this category of personnel is concerned, in the present methods of recruitment; the details will need to be worked out by the Central Government, State Governments and Public Service Commissions in consultation with experts on the subject. We recommend that this be done. But, as regards training after selection, we would put forward the concrete suggestion that the present period of training of six months in the all-India training centre should be preceded by at least three months during which the candidates are put through a special course of training at one or more rural centres, the course being so designed as to give them, among other things, a practical insight into rural surroundings, human and economic, rural needs and rural problems.

We would also point out that the six months' training will not by itself qualify a candidate in an occupational sense for the particular job—which may be one of a number of different varieties and sub-varieties—which he will hold on the completion of his training. We, therefore, commend for consideration by the Central Committee the suggestion that each candidate should, after the period of formal training in the all-India centre, be attached to an efficient institution of the type of that in which he is going to be employed after completion of training and there undergo the kind of practical apprenticeship without which his initial training cannot be said to be complete.

It follows that we consider that, at the highest level, the period of training will ordinarily have to cover a whole year—a three-months' course at one or more rural centres, six months' training in the all-India centre (both general and special, the latter directed to the work he will have to do) and lastly another three months of purely practical training in an appropriate institution.

Training for teaching staff

3. Among the many useful functions which the all-India centre will be in a position to perform, we attach importance to its providing training facilities for the teaching staff which is to be employed in the regional training centres and, to a certain extent, even that which will be engaged at the subordinate level of training in different States. In other words, we think that the all-India centre should discharge the additional function of being a co-operative training college for the teachers themselves. Among the teachers for whom such training should be designed we include also those who are charged with imparting instruction in Co-operation to village-level and other workers in National Extension Blocks and Community Projects.

Training of 'extension' workers

4. We note that the Central Committee contemplates that there should in all be some five regional training centres for intermediate personnel. Besides the one at Poona which has recently been expanded, a new centre has been set up in Madras. The Committee hopes very soon to set up a third centre to serve the north-eastern areas and thereafter two more for the other regions. Some of the recommendations we have made above will

apply *mutatis mutandis* to these regional centres. We recommend investigation by the relevant authorities, as well as by the Central Committee for Co-operative Training, of the question whether part of the training of 'extension' workers (as distinguished from that of their teachers), so far as such training relates to Co-operation, may not perhaps be best conducted at the regional centres, instead of at each of the 30 to 35 multi-purpose training centres established for training such workers. It is needless to say that at the regional centres, as at the all-India centre, due emphasis should be placed on a sympathetic approach to rural problems, on co-operative banking, marketing, processing, etc., and finally on individual practical training for the particular job ultimately in view for the candidate.

Special courses etc.

5. At the all-India centre particularly, and at the regional centres generally, we consider that part of the training in co-operative banking should consist of a special course in commercial banking. This would not, of course, be a detailed course, but it is obviously important that the co-operative trainees should be given an opportunity of properly acquainting themselves with the theory and practice of commercial banking. A point to consider would be whether the Bankers' Training College can be of some use in this context, e.g., by the provision of special courses of short duration to supplement the main course at the all-India centre. We recommend that this possibility be examined by the Central Committee for Co-operative Training.

At the subordinate level, again, we would emphasize the need to train the candidates in the different aspects of the duties which will fall to be discharged by them in the pursuit of the programme of co-operative development envisaged in this Report.

In any such programme, administration, supervision and audit are of the utmost importance, and it is clearly necessary that both general and special courses should be designed at all levels so as to train the personnel (especially the personnel of co-operative departments) in these important aspects of co-operative organization. Further, it is extremely desirable that the candidates should be given an opportunity of observing efficient co-operative departments at work and of absorbing what is best in them. We therefore urge the importance of the candidates being taken round to States such as Bombay and Madras, where the co-operative movement is relatively well developed.

Training for co-operative activity in a larger sector

6. To turn to another point—one of great importance for the lines on which these training institutions should develop in future and therefore for the lines on which they should be designed from now on—we definitely contemplate that the all-India centre and the regional centres will, in due course, cater not only for co-operative administration, banking, processing, marketing, cottage industries, etc., but also for the even wider variety of co-operative activity included in the First Five Year Plan which comprises co-operative farming, co-operative consolidation of holdings, co-operative irrigation and so on. We consider that this larger objective should be kept in view in the selection of sites, designing of plans, etc., at the stage—which we hope will not be far off—when the all-India and regional centres are proposed to be housed in buildings of their own. It follows that both in respect of the present scope of training and the larger field which

we hope will open out for these institutions, the Reserve Bank and the Government of India should provide adequate funds, recurring and non-recurring. The recurring requirements will doubtless exceed substantially the present provision of about Rs. 10 lakhs per annum, of which half is contributed by the Reserve Bank (for higher and intermediate training) and half by the Government of India (for the training of subordinate personnel).

Non-official workers

7. We shall next refer briefly to the important question of the training of non-official workers at different levels. We would here stress the need for the Central Committee working in collaboration with the All-India Co-operative Union, provided the latter makes such collaboration possible by suitably locating its headquarters. We would make the definite suggestion that the headquarters of the Union be located in Bombay and, if possible, in the same building as the Reserve Bank's Agricultural Credit Department with which the Central Committee is intimately connected. Such a development would embody, in no symbolic sense but in a very practical manner, the co-ordination of official and non-official activity in the important sphere of co-operative education and training. Provided the Union shows itself ready to collaborate on these lines, we recommend (i) that the Reserve Bank give every assistance in the matter of accommodation as well as of co-ordination of organizational machinery (since the Reserve Bank's country-wide contacts will serve to obtain for the Union much of the material etc., which it will be unable to get without considerable duplication of staff and effort) and (ii) that the Central Government make more funds available to the Union for activities falling within its sphere. The most important of these will be the training of non-official members and office-bearers and educative propaganda for these as well as members of the public. An aspect which needs special mention is the need to translate and develop basic co-operative literature and make it available in the regional languages.

Bankers' Training College

8. Coming next to the Bankers' Training College, we would emphasize that this institution—and others of its type, all-India or regional, which may later be established—will be of the utmost significance for that part of our scheme which is connected with the State Bank of India. Initially, the personnel of this bank will be drawn from a number of different banks, since it is an amalgamation of these that will give rise to the State Bank. The proper training of this staff will therefore be of great importance. But that importance will not lapse with the initial stage. An organizational development of the order we contemplate for the State Bank will require for its satisfactory performance a staff which has received the best possible training on the optimum necessary scale. Part of this training may be common to the employees of the State Bank and those of other commercial banks which may make use of the College. But we definitely recommend special courses, in addition, designed for candidates from the State Bank of India in order that they may be properly equipped for their semi-public functions as also for meeting the technical needs peculiar to them (e.g., management of currency chests) to the extent such needs can be met in advance by an organized training institution (as distinguished from practical apprenticeship and experience at different stages, preceding or subsequent, in the course of probation and service in the State Bank itself). We would further recommend, as regards the employees of the State Bank of India, especially those who are to be agents at district headquarter places, that they should be given a special course

in co-operative banking at the all-India centre at Poona, so that at a sufficiently formative stage in their careers they may get an insight into the technique and spirit of Co-operation and be imbued with a sense of understanding and sympathy for the Movement. We consider that such 'cross-fertilization' between commercial and co-operative banking will greatly increase the prospect of success of the integrated scheme.

Personnel for warehousing

9. Finally, as regards the officers, supervisory personnel and certain other categories of staff of the All-India Warehousing Corporation, State Warehousing Companies and co-operatives in charge of storage and warehousing, we would repeat our suggestion in Chapter 35 that special arrangements for their training should be made in twofold co-ordination: with the Bankers' Training College on the one hand and with the Central Committee's training institutions on the other.

CHAPTER 40

THE ROLE OF GOVERNMENT AND GOVERNMENT FINANCE: RECOMMENDATIONS

Introductory

WE have elsewhere described the weaknesses and strong points of Government finance from the point of view of the requirements of a sound system of agricultural credit. We have indicated certain directions in which the institution of *taccavi* appears to require limitation rather than expansion. At the same time, we have drawn attention to aspects of Government finance which seem to us of importance in the designing of an integrated scheme of rural credit. In this chapter, we propose to advert to the suggestions we have already made, elaborate them where necessary and bring them together in appropriate sequence.

It would be convenient to deal first with the State Governments in their relation to the integrated scheme, and then with the Central Government. The former might be considered in relation to their functions *vis-a-vis* (1) the agricultural sector, including in it not only the cultivation of land but also animal husbandry and other activities ancillary to agriculture and, thereafter, (2) the non-agricultural sector, including in it all residual economic activity important to the villager: that is to say, among others, to the handicraftsman, the artisan and the agricultural labourer as also in various degrees to the cultivator whose income it helps to supplement. This division cannot, of course, be regarded as water-tight. Of the relevant functions of the State Government, many must necessarily relate to all sections of the village population, irrespective of the nature of their activities, and therefore extend to both the sectors we have mentioned, viz., agricultural and non-agricultural. An instance in point is the disbursement of *taccavi* in times of distress, such as famine or flood. Nevertheless, as a matter of arrangement, whenever governmental functions of this type arise for mention, it would be convenient to deal with them in connexion with agriculture and the activities allied to agriculture.

State Government and agricultural credit

2. We shall take up the functions of the State Government in relation to finance and credit for the agricultural producer, and start with such of these as we feel have only limited scope in the sense that they do not hold promise of effective development on any large scale or on a scale commensurate with the expenditure and administrative effort involved. It is necessary to be very clear in one's mind as to the place which these functions should occupy in an integrated scheme, especially because of the strong advocacy which some of them have received from certain quarters and because of the analogy with the practice in foreign countries by which they are usually supported. An idea which has been put forward and canvassed is that Government should aim at eventually building up a country-wide administrative machinery for the purpose of

turning the non-creditworthy cultivator into a creditworthy person, not only by programmes of development such as irrigation for the improvement of his economic status, but also by a system of 'supervised credit', that is to say, by a species of 'extension' service conceived on a very much larger scale than at present. This would be directed to the class of individual farmer whose operations, at his present level of efficiency, are below the subsistence mark; and the attempt would be, through education in improved methods of technology, and by the bestowal of fostering care and advice on each family unit separately, to make those families self-supporting and eventually creditworthy. We have already expressed the view that any large institutional development on the part of Government on these lines will be completely beyond its administrative and financial resources, besides being likely to defeat its own purpose because of its concentration on instruction and enlightenment, where the real need is for promotion and reorganization of primary economic activity for the benefit of the cultivator. We have also pointed out how the prevalent conception of the producer's non-creditworthiness is not necessarily related to the facts of his production. Few producers, especially of the medium group and above, are non-creditworthy if creditworthiness is related to the specific amount required for producing the crop on the land. Of relatively few cultivators can it be said that they are not creditworthy to the extent of some percentage of the crop likely to be harvested, *provided* efficient arrangements can be made to recover the loan from the crop. We have also pointed out that the present basis of creditworthiness in practice adopted by co-operatives is due to the combination of a variety of circumstances, including the undue place which ownership has come to occupy in the co-operative credit system, besides of course the basic conditions in the village relatable to private dominance not only over credit, but over processing, marketing, etc., and the consequent hold of the private interests on the cultivator and his produce. The recommendations we have made should, if accepted and carried out, have the effect of bringing an increasingly large section of cultivators into the fold of co-operative credit. This, in our view, holds out much greater promise of achievement than does an attempt first to divide the agricultural population of the villages, by the necessarily subjective criteria of the credit agency, into the dichotomy of 'creditworthy' and 'non-creditworthy' and then to bring the latter under an elaborate apparatus of educative supervision, guided credit and individual sponsorship. Moreover, the cost of a programme on the lines we have suggested, large as it may be, will yet seem very modest when compared with that of nation-wide 'supervised credit'.

'Extension' and State participation

3. We should not, however, be understood as minimizing in any way the importance of the 'extension' work now undertaken in Community Projects and National Extension Blocks, still relatively small in the aggregate in point of coverage of area and population, but spread far and wide over different regions of the country. On the contrary, we regard extension as perhaps the most significant administrative development in post-independence India. It would, however, be futile to expect of it what it will inherently not be able to achieve, viz., the economic emancipation of the cultivator as the one step most needed today in any programme which aims at his lasting benefit. The need for that step is twofold. Economic emancipation will complete a process which has to some extent already started in the form of legal emancipation; and economic emancipation will be more potent than most other factors in the further process of economic betterment.

Briefly, we conceive as complementary in an essential sense—and not, certainly, contradictory in any sense—the role of extension work and the role of economic partnership between the cultivator and the State. While the two activities should go together, wherever possible, and, if necessary, new techniques of extension and 'village participation' worked out in relation to the composite programme wherever that can be done, we would also point out that the programme of State participation in primary economic activity can have a much wider field even initially than extension work of an intensive kind concentrated in Community Projects etc. The former of course requires, in initiation as in progress, such deliberateness as will be necessary for the study of local conditions, drawing up of local plans and provision of trained personnel; but we are confident that the psychological response it will evoke, and therefore the momentum it will gather, are likely to be much greater, and the consequent coverage even initially much larger, than would be possible for any programme, however well administered, which seeks to work within the present structure of economic relations in the rural area. State partnership for the positive purpose of altering that structure for the benefit of the cultivator should have a cumulatively powerful effect which anything less fundamental cannot hope to achieve. But if the administrative and educative aspects of extension work are made conjoint, wherever possible, with the economic participation between the State and the primary producer, the results should indeed be most fruitful. That is why, in our view, the two programmes of extension and State participation are, in essence, complementary.

State-sponsored co-operative membership

4. For much the same reasons, we are not in favour, except in special circumstances such as we shall mention below, of the idea of 'sponsored' co-operative membership of the so-called non-creditworthy. We refer to the suggestion sometimes made that, along with some form of State supervision, might go a programme whereby the State takes responsibility for the credit needs of certain sectors of the village, not by the direct provision of loans to them, but by sponsoring their membership of co-operative credit societies and standing guarantee for part of the repayment of the loans obtained. We consider this line of solution to be unrelated to the requirements of the situation. If, as we have said, the activities of the cultivator who is at or below the subsistence level cannot be supervised on any large scale, then sponsorship would be a risk which is not based upon effective administrative arrangements for minimizing that risk; and, therefore, sponsorship will fail as an effective solution just as much as supervised credit is likely to fail. But there is another and very real danger that will arise from any pursuit on a wide scale of the idea of sponsorship, and this danger is from the point of view of the soundness of the business operations of the co-operative society itself. If there are two classes of members in a co-operative society, some of them sponsored and some non-sponsored, it follows that the co-operative society will have to develop two attitudes towards the assessment of a member's repaying capacity; for those who are sponsored, it will look not so much to the capacity of the member to repay as to the margin of guarantee available. This is likely to impair such method and efficiency as the society may possess in regard to the assessment of normal creditworthiness. What is more, this will engender in the whole system of co-operative credit an inclination on the part of even those people who can get credit on the basis of their own property or repaying capacity to seek their inclusion as 'sponsored' members in order either to escape with

a lower repayment or to obtain a larger loan than they would otherwise get. From every point of view, therefore, the idea of State sponsorship of credit is one which, in our opinion, ought not to be pursued, except in relation to the special circumstances which we shall later describe.

Restriction of 'taccavi' to periods of distress

5. We then come to the main direction in which Government funds are now made available as credit to the cultivator. This is the system of *taccavi*, whether at a low volume of operations as when the State Government has to find the money out of its own resources, or at a substantially higher level, as in recent years, when funds for grow-more-food schemes are made available by the Central Government. We have elsewhere given details of how this system operates; it is so defective that there is no alternative to its being considerably restricted. In the integrated scheme, we envisage the channelling of productive finance through the co-operative society. Further, we have recommended that Government should be the major partner in the co-operative credit system right down to the primary society and, in some cases and under stated conditions, including the primary society itself. It would be totally unnecessary and wasteful for Government to create, on the one hand, a semi-State credit machinery, through large-scale financial and administrative participation, and on the other pursue independently a parallel line of credit activity in the form of *taccavi*. In any particular area where it might still be necessary, the right course would, therefore, be to regard *taccavi*, to the extent that it is intended for productive purposes, as a feature which will continue as a purely transitional arrangement until such time as, in that area, a co-operative organization of the type recommended is created. We shall deal with this question later, but the main modification necessary in regard to the whole policy of *taccavi* is obviously that it should hereafter be restricted to periods of famine and similar distress. This recommendation is not new. We invite attention to a few of the recommendations of authoritative committees in the past. Thus, the Indian Central Banking Enquiry Committee said: "All the [Provincial] Committees are unanimously of opinion that the Act should be confined to times of emergency and stress and are not in favour of using the Act more extensively in normal circumstances. We agree that it is out of question for Government to provide the whole of the loan requirements of the agriculturists and that sporadic attempts on the part of Government to supply a fraction of such requirements are bound to meet with failure. We, therefore, recommend that the operation of the Agriculturists' Loans Act should be generally restricted to relief of distress."[1] The Agricultural Finance Sub-Committee took a similar view and pointed out that "the present loans for agricultural improvement and the present administration of *taccavi* are closely connected in their origin and operation with times of famine or distress."[2]

We are quite clear in our minds that this is the right line to pursue so far as Government finance is concerned and we therefore recommend that *taccavi* should hereafter be strictly limited, subject to the transitional exceptions mentioned below, to periods of widespread distress such as famine, scarcity, floods and so on.

[1] *The Indian Central Banking Enquiry Committee*, 1931, *Majority Report*, p. 184.

[2] *Report of the Agricultural Finance Sub-Committee*, 1945, p. 33.

6. At this point, we would consider the scope for co-ordination between co-operative credit and Government *taccavi*. One context which needs to be mentioned arises when there is famine or distress. At such a time, *taccavi* assumes large proportions and is given to a much wider section of the population than usual. At the same time, however, a distinction is sometimes drawn between members of co-operative societies and others, and distress finance denied to the former on the ground that it is the business of their societies to finance them. While it is true that ordinarily *taccavi* should be confined to non-members, an abnormal situation such as is created by famine has obviously to be treated as an exception to the general rule. On such occasions, no distinction for purposes of *taccavi* should be drawn between members of co-operative societies and others. Another context which has to be mentioned is that of concessional *taccavi* which, for certain specified productive purposes, is provided by Government at specially low rates of interest. It often happens that co-operative finance is given for identical purposes at rates of interest higher than those charged by Government, the reason being that the subsidy in effect offered by the State cannot be afforded by the co-operatives. The resulting coexistence of two sets of interest rates on loans for the same purpose, the higher rates being paid by members of co-operative societies and the lower by non-members, has been a matter of concern to co-operators in different States. Briefly, the plea on behalf of co-operative credit has been that the subsidy should be available to members of co-operative societies as well. On this subject, we endorse the following suggestion contained in a resolution adopted by the Bombay State Co-operative Council at its first session:

'Taccavi' and co-operative credit

" As far as possible, loans required for the agriculturist for his different short-term and long-term agricultural needs should be advanced at uniform rates of interest. Where, however, Government desires to advance finance for special purposes at concessional rates of interest, such concessional finance should be made available through co-operative institutions."

7. It is again in connexion with Government's responsibilities in times of distress and emergency that we recommend the establishment of a State Agricultural Credit (Relief and Guarantee) Fund to be used in conjunction with the National Agricultural Credit (Relief and Guarantee) Fund which should be similarly instituted by the Central Government under the Ministry of Food and Agriculture. Where irrecoverable arrears of debts due to co-operative credit institutions have assumed a magnitude which threatens the stability of the structure and provided the Ministry of Food and Agriculture is satisfied that such arrears have arisen from causes, such as widespread or chronic famine, beyond the control of the institutions concerned, the Fund of the Central Government can be utilized for the purpose of writing off such arrears; relief from this Fund may be made conditional on the State Government making a stipulated contribution for the same purpose from the corresponding Fund maintained by it. We suggest that the proportion to be paid in such a context by the State Government should be related to the financial strength of different State Governments. The stronger Governments may perhaps contribute as much as 75 per cent of the total; next come those State Governments which may contribute 50 per cent; the weaker State Governments

State Agricultural Credit (Relief and Guarantee) Fund

may be asked to contribute only 25 per cent. The guarantee part of this Fund will be dealt with later.

Role of Government in special contexts

8. Apart from the 'emergency' category of credit responsibilities which a State Government has to assume in times of famine or other form of distress, there are certain special responsibilities which arise for Government in specific contexts and which may be regarded as exceptions to the general rule we have recommended of Government not attempting to induce co-operatives to lend by itself guaranteeing part or whole of the loans. These exceptional contexts are relatable to concrete plans or special policies of Government limited in application to well-defined areas or classes of persons. To illustrate, three important categories would be

(i) an area for which, in view of its very marked economic backwardness, a special plan of development, involving much more Government subsidy than usual, has been devised and is in operation;

(ii) an area which is largely inhabited by backward tribes and for which a similar plan of development is in operation; and

(iii) an economically backward occupational class, when special policies of rehabilitation are adopted for their benefit (e.g., forest labourers when co-operatively organized and entrusted with the felling of forest coupes, on special terms, in elimination of the contractor).

It is only appropriate that in certain limited and well-defined contexts such as these the State should take special responsibility and provide administrative, technical and financial assistance for the benefit of the areas and classes concerned, including subsidies, guarantees, etc., where necessary, to the co-operative societies and the central banks or branches of state co-operative banks which in the aspect of credit are participants in these programmes of special development. We would again emphasize that it is only in restricted contexts such as these that we contemplate, among other things, a type of guaranteed credit such as we have earlier discussed. The policy of guarantee would then relate to a whole class or a whole area and, within it, would not distinguish between individual and individual. In somewhat more detailed illustration of the different types of special Government assistance required in some of these contexts we mention below, in summarized form, some of the relevant recommendations of the Agricultural Credit Organization Committee, 1947:

(*a*) As regards areas (including tribal areas) with special problems of social or economic backwardness, where trained and dependable non-officials are available, the co-operative movement may be encouraged to make special arrangements; elsewhere, grain-cum-commodity depots run by Government agency may be promoted.

(*b*) In areas where the needs of the tribes are to be met through the co-operative movement, agricultural banks may be set up at a later stage which may finance individual cultivators as well as societies. They should deal in kind and should be run by the apex bank. They should receive special help from Government which should make good the deficit in their working. In the beginning, all

their shares may be bought by the State Government and the apex bank but gradually the members of the tribe and affiliated societies should be allowed to hold such shares.

(c) Whatever the agency selected in various areas, the State itself should, besides supplying finance, try to improve the general economic condition of the tribe and prevent their lands from passing out of their hands to moneylenders.

Types of guarantee

9. Another important aspect of credit in which Government guarantee is a necessary element is that connected with land mortgage banking. Even today, of course, State Governments (e.g., Bombay and Madras) guarantee the debentures floated by central land mortgage banks. Hereafter, in the scheme we envisage, Government will participate to a much larger extent in land mortgage banking. New banks of this type will be set up all over the country. If these banks are to fulfil their function of giving productive finance, it will be necessary for them to take into account not only the present value of the land at the time of granting loans, but also its future value when the improvements have been effected. We have, in dealing with this matter in the relevant portion of the chapter on the co-operative agency, made some suggestions for minimizing the risk to the agency which lends or guarantees. Thus, we have advised that the improvement should be supervised from stage to stage during its execution and the loan disbursed in instalments after each supervision. We have also suggested that Government should guarantee to the land mortgage bank, for a particular period, the difference between the two values, so that the bank itself, for its part, may operate in the manner in which a business organization should. We consider that any payments which may, in extreme circumstances, be necessitated as a result of this guarantee should be legitimately payable out of the State Agricultural Credit (Relief and Guarantee) Fund, which can also be drawn upon for payments of liabilities arising out of any guarantees in respect of the areas which are economically backward or which are inhabited by backward tribes. There are also other categories of guarantee by the State Government which have to be brought within the purview of the Relief and Guarantee Fund, in the sense that possible payments in fulfilment of those guarantees should be a recognized charge on the Fund. Principal among them are the State Government's guarantees in respect of (i) short-term accommodation and (ii) medium-term accommodation provided by the Reserve Bank to state and central co-operative banks for agricultural purposes. There is, however, one type of credit guarantee which should not be brought within the purpose of this Fund. We refer to the guarantee which State Governments may hereafter extend to the Reserve Bank in respect of its short-term accommodation for approved cottage industries. There are very good reasons for such a guarantee being provided for, as it has been in one of the recent amendments of the Reserve Bank of India Act, and we have no doubt that proper use of the new legal provision will be of considerable help in the expansion and development of co-operative credit for rural industries, especially handloom; but the scope and financial implications of the guarantee for cottage industries are by themselves so wide that they will require entirely separate arrangements for fulfilment of guarantee etc. It will be unwise to include them in the arrangements here suggested in respect of agricultural credit. We have advisedly included the term 'Agricultural Credit'—and not 'Rural Credit'—in the designation of the Fund.

Contribution to the Funds

10. Two types of contribution to the State Agricultural Credit (Relief and Guarantee) Fund might be

(1) annual budgetary provision by the State Government; and

(2) part of the dividend earned by the State Government on its share capital in the various co-operative credit agencies to the extent that such dividend is over and above a particular minimum such as 3 per cent.

We have elsewhere referred to the Agricultural Credit Stabilization Funds to be created within the state co-operative bank etc. Our proposal is that the other part of Government's dividend above the specified minimum (e.g., 3 per cent) should be earmarked within the institution itself for contribution towards the Agricultural Credit Stabilization Fund of that institution; in addition, of course, there will be similar contributions to the Stabilization Fund from the dividend payable to the other shareholders (e.g., primary or other co-operative societies) in the state or central co-operative bank. This Fund will be co-ordinated, in the manner already described in Chapter 33, with the National Agricultural Credit (Stabilization) Fund of the Reserve Bank of India.

Areas where co-operative machinery is poor or absent

11. We have so far dealt with the functions and responsibilities of the State Governments in relation to special circumstances arising from famine, distress, etc., or from the economically backward character of specific areas or specific classes or from contexts such as the financing of land improvement by land mortgage banks. There is also the question, to which we have made incidental reference, of the arrangements to be made directly by the State Government in those areas where the co-operative machinery is either non-existent or is almost insignificant. In such cases, *taccavi* for productive purposes (whether the term of the loan be short, medium or long) is unavoidable. We would recommend in this context that two firm lines of policy be followed. One is that the borrowers should, at the earliest possible moment, be encouraged to form themselves into a co-operative society of the appropriate type. To ensure this, the lending by Government will have to be in close co-ordination with the co-operative department. Wherever, for example, there is a large number of borrowers in a particular area, the Registrar of Co-operative Societies should pay due attention to that area with a view to forming a suitable co-operative credit organization as soon as possible. We do not consider that any fruitful results will follow from the mere organization of borrowers' groups. These groups have no legal status of their own; there is no automatic means of their being converted into co-operative societies; nor is there any way of their being enabled to operate as incipient co-operative societies before being actually organized into such societies. What is indicated, therefore, is the adoption of a positive policy of co-operative development at the earliest possible moment. Secondly, we think that the policy just described should be confined to distinct and compact areas and not apply, e.g., to people within the territorial jurisdiction of a co-operative society who are not yet members of that society. In the latter case, it should be the endeavour of the co-operative society which, hereafter, will receive needed aid through State participation etc., to extend its activities so as to cover as large a portion of the population as possible within as short a time as possible. These recommendations, as we have pointed out, apply to all types of credit, short-term, medium-term and long-term. Briefly, the policy which we consider

that the State Government should follow in relation to the development of the credit structure is that of filling up the gaps not yet covered by co-operatives, but in such a way that co-operatives can in turn take over as soon as possible from the State Government.

State as participator in co-operative movement

12. We shall now turn to the responsibilities of the State as participator, financial and otherwise, in the co-operative credit movement. We have already suggested that, in the new structure which we recommend, the training for the personnel employed, should be a special responsibility of the different Governments in conjunction with the Central Committee for Co-operative Training. Besides financial, technical and administrative participation, one specific liability of the State Government would be in connexion with contributions to the Agricultural Credit Stabilization Funds (to be instituted by state co-operative banks, central co-operative banks, etc.) to which we have referred. As already stated, the financial contribution here would be by allocation to the Funds of part of the dividend earned by Government above, say, 3 per cent.

In regard to co-operative economic activities other than the provision of credit, we have dealt elsewhere with the important aspect of the State's participation in primary economic activities such as processing, marketing, etc. In these instances again, the State Government's responsibility will be that of providing the requisite strength, financial, administrative and technical, to an organization in which the primary producer is himself represented and in which he takes an active part. We suggest that the whole of the dividend payable to Government on its share capital in these institutions should be funded by it into a State Co-operative Development Fund corresponding to the National Co-operative Development Fund at the all-India level. Thus, it may be drawn upon for making contributions to the share capital of co-operative marketing and processing societies. The contributions to this Fund would consist of the proceeds from this dividend and such annual contributions as the State Government may be able to make. In view of the importance of this part of the programme, we hope that the State Governments will set apart substantial sums every year as contributions to the State Co-operative Development Funds.

Rural labourer and handicraftsman

13. The next important item concerns the responsibilities of the State Government in regard to the economic activities of the village labourer and the village artisan, i.e., that part of the sector which is dependent on cottage industries, agricultural labour, etc. As regards the former, we commend to the notice of State Governments the efforts made by certain States to organize forest labour, labour on canal-digging, etc., into co-operative societies, some of which have shown definite promise. We envisage useful possibilities for such societies, provided here again there is adequate financial, administrative and technical participation by the State Governments.

As regards the village handicraftsman, it is clear that the organization of cottage industries etc., for the purpose of providing ancillary and supplementary lines of productive activity for the villager is of extreme importance. We believe that, in this matter again, the real solution lies in State participation in co-operative activity, such participation being financial, administrative and technical. For some detailed suggestions on this

item, more especially regarding the need for co-ordination between the various bodies connected with it, we invite perusal of Chapter 44.

Central Government

14. We have so far concerned ourselves in this chapter mainly with the functions and responsibilities of the State Government, but have also dealt with some of the corresponding functions and responsibilities of the Central Government as, e.g., in connexion with the National Agricultural Credit (Relief and Guarantee) Fund. It is not necessary to set out in any great detail here the other functions of the Central Government relevant to this context, since they are covered by Chapter 35 on the National Co-operative Development and Warehousing Board. Briefly, the more important co-ordinating functions of the Central Government arising from the integrated scheme will be exercised chiefly through the Board, and the finances will be made available through the National Co-operative Development Fund and the National Warehousing Development Fund, both set up under that Board. We have recommended that the latter Fund should have an initial amount of Rs. 5 crores and thereafter receive annual contributions of Rs 2 crores, and that the former should get annual contributions of Rs 3 crores. We have also suggested that the National Co-operative Development and Warehousing Board should be at liberty to appropriate amounts between the two Funds. These Funds, operated in accordance with a well-considered plan, as also in effective co-ordination with the State Governments, the Reserve Bank and the Planning Commission, will provide the financial framework within which the Central Government can promote the economic betterment of rural India. The betterment hoped for will be from endeavour in two directions. One will be from a programme for the planned development, on a co-operative basis, of the economic activities important to the rural population. The other will be from a programme, co-ordinated with the former, for the planned organization and development of storage, warehousing and distribution which, besides other things, will be designed to link the rural areas, more effectively and for their own benefit, with the important points of sale or consumption or export on the one hand, and manufacture, supply or import on the other.

CHAPTER 41

THE PRIVATE CREDIT AGENCIES: RECOMMENDATIONS

Private credit agencies

UNDER the two broad chapter headings of (1) moneylenders, traders and indigenous bankers and (2) commercial banks, but taking each of these categories—and sometimes their sub-divisions—separately, we have attempted to assess the record of the private credit agencies in relation to the provision of agricultural credit. The latter term included not only direct accommodation to the cultivator, as in the case of moneylenders, but also finance for trade and business connected with agriculture, as in the case of commercial banks. Bank accommodation, we have noticed, was principally based on the security of the agricultural commodities themselves.

Moneylender

2. The moneylender has been seen to be of several types which vary in their regional distribution, the agriculturist moneylender being predominant in certain areas, and the professional moneylender in others; we have also noticed that the moneylender is in many cases indistinguishable from the village trader. An important private credit agency in certain areas is the 'trader' as we have defined him, viz., the professional trader who often comes from outside the village and is engaged in trade either on his own behalf or for a wholesaler, or is sometimes merely the agent of a big manufacturing firm. The moneylender, including in that term all the main varieties such as agriculturist and professional, trading and non-trading, is today, as we have seen, responsible for much the larger part of the credit which the cultivator obtains. For obvious reasons, statistics concerning what might be strictly regarded as the loan operations of the professional trader are not equally clear, since he is apt to lend in order to purchase and apt to forgo the higher interest in order to pay the lower price. There is this perhaps to be said in favour of the trader's finance, that it is more directly linked with production than are the moneylender's transactions. At a higher level, that is to say, in the town and in the city, both moneylender and trader tend to connect themselves up with the whole further ramification of indigenous bankers and commercial banks. All this emerges from what has already been depicted; our purpose in recalling it here is to enable a brief look again at this picture and then at the one since given of the integrated scheme, in order that it may be judged whether the two can be fitted into a common frame. It seems to us that they cannot. It is certainly obvious that the moneylender can be allotted no part in the scheme, important or insignificant, notwithstanding a dominance which today is overwhelming. Thus, it would be a complete reversal of the policies we have been advocating to give him a position in the co-operative banking structure, when the whole object of attempting to develop and strengthen that structure is to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront and put him

in his place. As revealed in the 'Glimpses of the Operational Picture' (Chapter 4) the moneylender does sometimes get into the co-operative society and use it for his benefit; this has to be guarded against and not provided for; to follow the latter course would be to court disaster for the whole scheme here put forward. We would not by any means be understood to convey that the moneylender serves no useful purpose, or that he belongs to some wicked and anti-social class distinguishable from the rest of Indian humanity, or that his class does not contain good people and perhaps good citizens just as much as any other. On the contrary, we have been at pains at more than one place in this Report to emphasize that what needs to be tackled is different from, and stronger than, just individuals or classes of individuals; that it is a whole impersonal system which has grown up, and that it is this which gives rise to inequities and needs to be rectified. It is not only that there is no point in denouncing the moneylender; there is no reason for denunciation. Most of all would indignation against him be misdirected, if it is from Government that it comes; for the real point is not what the moneylender does, but what the State has omitted to do. Just as well might Government, while failing to provide trained midwives for the villages, become angered at the manner in which village *dais* assist at child-births. In either case, the only indignation which may be called for, as likely to be fruitful, is that which Authority can summon against itself for having failed to provide a better alternative.

What would be an effective alternative for the cultivator would, by the same token, be an effective rival from the point of view of the moneylender. Many of the present malpractices of the moneylender are made possible by the absence of strong institutional competition such as, we believe, will be provided by the system recommended in these chapters. When such competition is organized, it may even be hoped that the money-lender's usefulness will for the first time predominate over the less useful and more undesirable features of his present dominance over the rural scene. The remaining problem will be that of devising a scheme of control over the moneylender's activities. This will have to be more realistic than can be said to be the case with the prevailing schemes of control under the moneylending legislation of different States. Only under a proper scheme will the better type of moneylender have a chance to perform his functions without having recourse to evasion of law and 'black market' moneylending.

The following are among the important points brought out in the recommendations of the Agricultural Finance Sub-Committee in regard to a proper scheme of control over the moneylender:

(1) The need to fix the maximum rate of interest at a level which is not unduly low;

(2) The need to have a proper and adequate system of supervision and enforcement; and

(3) The inclusion in the different Acts of a number of points (such as those cited below) which need to be provided for in any comprehensive system of control and supervision over the moneylender:

(i) Registration of moneylenders.

(ii) Licensing of moneylenders.

(iii) Maintenance of accounts in a prescribed form.

(iv) Prohibition against showing in books of accounts or in any other document a sum larger than what has been actually lent.

(v) Furnishing of periodical statement of accounts to the debtors.

(vi) Furnishing of statement to the debtor in prescribed form giving full particulars about each loan as and when advanced.

(vii) Issue of receipts to the debtors for every payment received.

(viii) Limitation of the rate of interest.

(ix) Enforcement of the rule of *damdupat*.

(x) Prohibition against making unlawful charges for expenses etc.

(xi) Provision to entitle a debtor to deposit at any time in a court of law an amount in part or full payment of a loan to be paid to his creditor.

(xii) Prohibition of contract for payment of a loan outside the State.

(xiii) Institution of suits by debtors for taking account and for having amounts due from them determined.

(xiv) Protection of debtors from molestation and intimidation.

(xv) Infringement of the provisions of the law to be made a criminal offence punishable with fine and in appropriate cases with imprisonment. (This is necessary as moneylenders who evade the law cover themselves against risk of fine by such means as taking bonds for amounts in excess of amounts actually advanced.)

The three main items need further notice.

We recommend that the rates of interest prescribed in the different States should be reviewed and revised in a realistic manner. The rates vary considerably between State and State, as will be seen from the particulars we have given in Chapters 9 and 14. It is obviously futile to expect the moneylender to charge an interest which is lower than that prescribed as the maximum for co-operative societies and other institutions. The only result of such a provision will be to render enforcement, which is difficult enough in any case, much more difficult. It is obvious that there is considerable evasion, not merely of the provision regarding maximum interest rate because of the unduly low levels prescribed, but also of other provisions, including those relating to registration.

As regards the need for a proper agency for the enforcement of the provisions of the Acts, we recommend that the administrative arrangements should be reviewed for each State and adequate supervision ensured by the provision of the necessary staff, preferably under the Registrar of Co-operative Societies who, in Bombay for example, is also the administrative authority for supervision over moneylenders.

We would also suggest a review of moneylending legislation in different States in order to ensure that the provisions of their Acts adequately cover the various points mentioned in the Report of the Agricultural Finance Sub-Committee.

3. In regard to traders, our recommendations are necessarily very few. We believe that a network of godowns and warehouses, once created and placed largely in charge of licensed warehousemen, will constitute a new facility and a new service of very considerable benefit to the trader himself, one which will enable him to deposit conveniently the produce bought by him, and, on the strength of it, get readier and larger credit from commercial banks and other lending agencies. We also consider that when co-operative marketing societies, financially and technically strengthened in the manner we have suggested, begin to offer him healthy institutional competition, the trader's operations are likely to evolve into a form of activity less harmful and more beneficial to the cultivator. The trader, like the moneylender, will then fall into place, not indeed in the scheme itself, but in a role supplementary to it, as providing useful services to the producer along with the proposed system of institutional marketing and finance.

Traders

As regards the wholesale trade at the export end or at the stage immediately preceding retail distribution and consumption, we trust that the agencies concerned can be persuaded, or will be able to persuade themselves, to link themselves with the co-operative marketing societies, thereby enabling the producer to get the best possible price for his produce. We shall elsewhere (Chapter 44) have occasion to refer to the possible place of forward commodity markets--such as those in cotton and groundnut—in the new context of the integrated scheme.

For the wholesale trade and traders generally, for the forward markets, and for commercial banks, insurance companies and other financial institutions, one way which will be open for constructive participation in the scheme which we have outlined is to contribute to the share capital and direction of the All-India Warehousing Corporation; we trust that they will avail themselves of the opportunity to the fullest possible extent.

4. This brings us to an important change which the successful implementation of the scheme can bring about in the significance of commercial banks to agricultural credit. If the storage and warehousing programme is effectively carried out and, further, if that gives the needed stimulus to the proper grading of the more important agricultural commodities, commercial banks will then for the first time be able to lend substantially on such commodities; and, also for the first time, they will have agricultural bills which will be negotiable and which the Reserve Bank can rediscount for them under section 17(4)(*d*) of its Act. For, it must be recognized that the lack of proper accommodation for storage, and of arrangements for issue of receipts by licensed warehouses, has been an important reason for the relatively small part hitherto played by commercial banks in the sphere of agricultural finance in this country.

Commercial banks

The various suggestions which we have made in regard to the extension of the branches of the State Bank of India should result in a cheapening of the rates of remittance, which in turn should make it possible for commercial banks to embark on larger branch extension themselves. Any idea that the State Bank of India, by a progressive increase in the number of its branches, is likely to compete with commercial banks and retard their expansion will be a thoroughly mistaken one. We quote, as apposite in this context, what the Rural Banking Enquiry Committee said apropos of the branch extension proposed by it in regard to the Imperial Bank of India:

" For the most part, the functions of different institutions such as the Imperial Bank, commercial banks, co-operative banks and post office savings banks are different, and their spheres of operations may be said largely to be complementary rather than competitive. We are, of course, aware that in certain quarters exaggerated fears of such competition are entertained and an over-critical attitude towards other institutions and their methods has been assumed . . . The expansion of the network of the Imperial Bank of India on the lines suggested by us later in the Report, would not only not injure other sound banking interests but, we believe, actually help their development."[1]

Finally, if Government endorse and adopt a positive programme, such as is here advocated, for the development of rural credit, it may legitimately be expected that the commercial banks will not fail to orient themselves to the underlying policies and that the more informed and responsive among them will make a significant contribution to the success of the programme, especially that part of it which is connected with the financing of co-operative marketing societies, processing societies and similar co-operative institutions. In many cases, this will be very necessary; it will be particularly so in areas which the State Bank of India may take time to reach, but which may meanwhile happen to be served by one or more of the other commercial banks of the country.

In the same context, we also hope that all the financial agencies we have mentioned —moneylender, trader, indigenous banker and commercial bank, as well as insurance companies, investment trusts and other financial institutions in urban areas—will respond to the need for supporting co-operative debentures, especially those of land mortgage banks, including the new land mortgage banks which we have suggested should be set up as a country-wide feature of credit organization. That these debentures should find a ready market is extremely important from the point of view of the large amount of finance which is required to be directed to productive purposes in the rural areas. We have recommended elsewhere that land mortgage banks should develop two different types of debentures: one meant, as at present, for urban institutions, but with the period and other terms suitably modified so as to conform to the requirements of those institutions from the point of investment; and the other specially designed for being issued in rural areas to the agriculturist investor. Properly designed, properly timed and properly canvassed, such ' rural debentures ' in our opinion should be an effective means of attracting, for productive purposes, the savings of people of means in the rural areas, especially the big cultivator and the moneylender. This will in reality mean that, to the extent there is such a diversion of savings, the agriculturist moneylender and the professional moneylender, instead of doing their own lending for purposes not necessarily productive, and to persons not necessarily prompt in repayment, will be lending to an institutional agency which can ensure both productiveness of purpose and promptness of repayment. That would be a very desirable prospect; a prospect, moreover, which reveals a possible point of contact between the moneylender and the integrated scheme.

[1] *Report of the Rural Banking Enquiry Committee*, 1950, p. 27.

CHAPTER 42

RURAL SAVINGS: RECOMMENDATIONS

Savings in rural areas

BEFORE considering whether rural savings can be better mobilized, it is necessary to ask among whom and to what extent they exist. No more than a broad indication is here attempted by way of answer to this question. For a more detailed exposition of the Survey data on this subject, reference is invited to Volume I of the Committee's Report.

We may first turn to those aspects of the cultivator's expenditure which may be regarded as relatable to his gross savings. Of relevance in this context is capital investment out of current income and past savings. The investment may be on farm or non-farm business, or it may be related to construction and repairs of residential houses, repayment of debt, buying of shares, making of deposits, lending of money and so forth. Any particular instance of capital investment on farm or household may imply one of two things: It may have been occasioned by a definite need for a certain type of asset (e.g., house, well or additional land), or it may merely mean that no better alternative for investment happened to be available. When there has been a financial investment in shares, deposits, etc., or when money has been loaned out at interest, it can be assumed that the funds invested were not required for meeting capital or current needs, whether of production or consumption. The proportion of rural families who reported financial investment was significantly low; so also was the size of the investment. During the Survey year, investment in the form of shares, deposits, etc., from owned resources amounted, on an average, to less than Rs 4 per family, barring 2 regions where it ranged around Rs 10 per family. It was also observed that a substantial proportion of the total expenditure on such items of financial investment was, as a rule, accounted for by the topmost decile of the cultivators. For these, that is to say, for the big cultivators, the relevant proportion ranged from 40 per cent to 90 per cent in most regions, whereas the medium cultivators accounted for less than 20 per cent and the small cultivators for hardly 5 per cent.

The position was similar in regard to funds estimated to have been invested by rural families in lendings. On an average, the estimated lendings per family amounted to Rs 42, but were somewhat higher in certain regions such as Punjab, PEPSU and Himachal Pradesh, Deccan, South Deccan and the East Coast. Recalling a distinction drawn in Chapter 16, we may also observe that average investment in the form of lending was, in general, larger in the monetized areas than in the regions of subsistence economy. In most regions the big cultivators, as lenders, accounted on an average for about 30 per cent to 60 per cent of the total dues; the large cultivators (top 30 per cent) reported about 60 per cent to 80 per cent of the dues; the share of the medium cultivators ranged between 10 per cent and 30 per cent, and that of the small cultivators was around 10 per cent.

It may also be recalled that in reply to certain questions put during the Survey, the cultivators gave a rough indication of the unfulfilled credit needs of various degrees which they were experiencing in connexion with expenditure on farm development. According to them, these requirements amounted to about Rs 1,300 per family for the top 50 per cent of the cultivators and about Rs 800 per family for the other half. Among the more important purposes for which the unavailable credit was stated to be required were increase of the size of holding, digging of wells and purchase of bullocks.

Some important considerations

2. In view of the many suggestions for mobilization of rural savings—e.g., through commercial banks—that appear from time to time, it is in our view important to recognize

(1) that the need to make rural savings *possible* (e.g., by economic development and credit extension of the types we have mentioned) is much more important than to render rural savings *available* (by 'mobilization' of different kinds);

(2) that, to the extent they exist, rural savings are most likely to be rendered available where most seen to be used for rural needs; and

(3) that rural savings fall so short of rural needs, that they must be supplemented from, not diverted to, urban areas.

Co-operative movement and savings

3. The encouragement of savings, one of the foremost aims of the co-operative credit movement, has also been one of its most intractable problems. Savings, it was hoped, would come through thrift; but thrift, it does not seem to have been quite realized, is a business-like quality of which the first implication is the existence of business. We believe that thrift will have meaning only if conditions pre-exist such as it is the objective of our recommendations to help to bring about. Moreover, no agency, co-operative or other, can hope for success in this context unless it is one which inspires confidence and evokes local interest. The most effective way, therefore, of ensuring that the co-operative agency does attract savings is so to strengthen it that it inspires confidence, and so to extend and diversify its activities, especially in the aspect of economic significance, that local interest and enthusiasm are created. The relative absence of these factors, and of course the absence of other conditions basic to the creation of savings, have resulted in the co-operative credit movement in India being more a movement for lending moneys than of attracting deposits. What the Maclagan Committee said years ago is still true, viz., " . . . in few things is the finance of Co-operation in India so markedly distinguished from that of Western Europe as in the small proportion of deposits held by primary societies. In Germany, more than 87 per cent of the working capital of the Raiffeisen societies consists of deposits, while in India the corresponding percentage is 18 only."[1] This percentage is now 10. We consider, however, that with the concerted large-scale effort of all concerned, and with Government participation, financial, administrative and technical, conditions will be created in which the co-operative agency will begin to attract confidence and, along with it, attract also deposits and savings of different types and different periods. So far as the primary society is concerned, we have already recommended that it should, as far as possible, be reorganized

[1] *Report of the Committee on Co-operation in India*, 1915, p. 24.

as a larger unit. If it is so reconstituted, and if at the same time it derives strength from the central co-operative bank and other co-operative institutions with which it will be affiliated, its ability to attract savings should be very greatly enhanced. We have recommended in Chapter 37 that, to start with, the deposits accepted by the primary credit society should be fixed deposits. Ordinarily, current deposits may only be accepted by the apex and central banks; but primary credit societies, acting as agents of the former, may in selected instances be allowed to accept savings deposits.

We have so far considered the more general aspects of the primary credit society in relation to its capacity to attract savings. There are four specific ways, however, in which we consider that the primary credit society, the central co-operative bank, the central land mortgage bank, and the marketing, processing and other societies, should be able not only to mobilize savings, but to do so on a much larger scale than hitherto, in the type of co-operative structure which we envisage in this Report. These are connected with the suggestions already made regarding (i) chit funds, (ii) retirement of Government capital in co-operative banks etc., (iii) development of co-operative marketing, processing and other forms of economic activity and (iv) co-operative debentures of land mortgage banks.

Mutual Help Chit Funds

4. We have elsewhere (Chapter 26) recommended the institution by the larger-sized primary credit society of a 'mutual help chit fund' for the purpose, among other things, of making loans available to as wide a section of the villagers as possible for meeting needs other than productive, e.g., those arising from marriages, illnesses, funerals, etc. We have recommended in that connexion that the entry to the chit fund should be through nominal membership of the primary credit society itself, and that a third of the periodical (e.g., monthly) contributions, individually small but likely in the aggregate to be quite large, should be earmarked as fixed deposits made in the society by the nominal members. For the other details of this proposal we invite reference to Chapter 26. What we would emphasize here is that, with the adoption of a system somewhat on these lines, it ought to be possible for the larger-sized primary credit society to attract and mobilize, in part, the savings of a much wider section of the rural population than the primary credit society has had occasion even to deal with so far, let alone dealing with them or with its own small membership in such a manner as to encourage thrift and savings.

Retirement of Government capital

5. Another important way in which we consider that savings may be mobilized by co-operative organizations at the village, taluka and district levels is by the operation of the process of retirement of that part of their capital which is directly or indirectly subscribed by Government. As indicated by us at more than one place, we contemplate, for each State-partnered co-operative institution, an initial minimum level of share capital to be gradually raised to an eventual optimum level. Until the latter is reached, there should be a compulsory increase in the shares of members, in some relation to their borrowings, together with proportionate additional contribution to share capital by Government (either direct or through the relevant apex or other institution). After the optimum level is reached, there should still be a compulsory contribution of share capital by members alone (i.e., other than Government), (1) until the *whole* of Government's share is retired, where primary societies are concerned, and (2) until Government's share, if it stood at more than 51 per cent, is reduced to 51 per cent, where societies above the primary level are concerned.

This should be an important means of attracting savings from the members of co-operative societies, provided it is not, as a method, confined to credit societies, but is part of a system which extends to, and is in particular intended for, those other co-operative societies, at all levels, which are concerned with processing, marketing, etc. That takes us to the next point.

Co-operative activity connected with production

6. The third way in which savings could be mobilized in the type of co-operative structure we envisage is through the association of the villager with economic activities connected with his own production. For all such societies, the same formula as above should apply in respect of minimum and optimum levels of the total share capital, progress to optimum through compulsory contribution, and gradual replacement of the Government share thereafter, to the full extent at the primary level and to such extent as retains Government as the major partner at the higher levels of the structure. The scale of compulsory addition to share capital should be suitably prescribed; it may, for example, be a percentage of the turnover of the transactions made through the society by a member or, alternatively, a percentage of the accommodation he may have previously obtained in the form of a loan from a connected credit society. In the aggregate, and as development on these lines proceeds, this should be an extremely significant way of mobilizing rural savings.

Co-operative debentures

7. Fourthly, we consider that co-operative debentures hold out prospects of attracting rural savings in an appreciable measure. For some time to come, however, these debentures will be important mainly from the point of view of land mortgage banks, rather than of central co-operative banks etc. We have elsewhere recommended that the debentures of land mortgage banks should be varied in period so as to suit the conditions of the money market; we have also recommended that the Reserve Bank and the State Bank of India should take steps to encourage a market for such debentures. Further, we have made a suggestion, which we consider very important, in regard to the institution of an altogether new type of land mortgage bank debenture, namely, one intended for the rural areas. These 'rural debentures' should, as far as possible, be for specific projects of development in which the villager is interested in different degrees, according as they are of direct benefit to him, or of benefit to those with whom he shares a fellowship of interest because of their belonging to his district or region or State. Thus, if the purpose of the debenture is to provide loans to the cultivators in his own locality to prepare their lands for the higher productivity made possible by a minor irrigation work of the district, this may be of more or less direct appeal to the local cultivator: at the same time, a debenture similarly related to some important and much publicized major irrigation work established in his State may have an appeal for him which is less direct, but not necessarily less strong. Just as the debentures intended to draw savings from the money market are issued during the slack season when money is available with the market, so should these rural debentures, as far as possible, be issued at the time of harvest and sale of crop when money is available with the agricultural classes. So also, in regard to period of repayment etc., these debentures should be so designed as to suit the requirements of the rural investor.

We have already stressed the need for a positive policy being followed by the Reserve Bank and the State Bank of India, in regard to the creation of an effective market for the debentures of land mortgage banks. We would suggest that the Reserve Bank of India

should agree to give accommodation on debentures of land mortgage banks as readily as on other forms of acceptable security. If the Reserve Bank itself does not treat these debentures as basis for loans, even though they are guaranteed by State Governments, and insists on a marketability which they do not possess and which it is the whole object to promote, then, obviously, it is not likely that other institutions will give loans on the basis of these debentures; and we end, as we start, with what is unacceptable because it is non-marketable, and is non-marketable because it is unacceptable.

Remittance facilities

8. We would draw attention to the importance of remittance facilities in the context of mobilization of savings by the co-operative agency. We have recommended arrangements which imply considerable liberalization of remittance facilities. We hope that these will be extremely cheap as the result of a considerable increase in the number of currency chests with the establishment of the State Bank of India and its subsequent expansion; but we would go farther and recommend that in suitable areas, if not indeed everywhere, co-operative banks should be given *free* remittance facilities. The justification for this is indeed very great. We would quote what the Rural Banking Enquiry Committee have said in this context: "Banks are dependent for their successful functioning on the existence of facilities for the easy and cheap remittance of funds from centre to centre in order to collect funds where they are surplus for the time being and to use them where they are most urgently required. If such movement of funds is difficult or costly, banks are put to considerable inconvenience. It has been represented to us that banks are unable to accept deposits at rural centres because the movement of funds between the various centres is still difficult and costly."[1] If this is the position in regard to commercial banks generally, the much graver need of co-operative banks may well be imagined. In the structure which we have recommended, Government itself will be the major partner of the co-operative credit movement at several levels. It is only appropriate, in this context, that the co-operative credit system should be provided with the facility of free remittance.

Government and rural savings

9. We may next consider the role of Government in the matter of mobilizing savings from the rural areas. An effort has been made by some States in recent years to float loans for purposes specifically connected with projects of local development. We would emphasize the need for co-ordinating such loans with the co-operative and other loans needed for economic development in areas comprised in the State. Broadly, we would suggest that the State loans should be designed to mobilize savings from urban and semi-urban areas, rather than from the rural areas. These latter should be left to be drawn upon by land mortgage banks and co-operative societies for the purposes of production and for supplying to the private sector of agriculture that which is complementary to the funds needed by the State for its own effort in the public sector. Thus, even if the State happens to get enough money through a State loan for the execution of a particular irrigation project, it should not be forgotten that large amounts would still be required, by way of loans, by the agriculturists themselves in order that their lands may be prepared for irrigation and otherwise developed. For their completion no less than for their success, most schemes of agricultural development depend on the combined effort of Government and the cultivator, and lack of finance for the private sector in agriculture can gravely

[1] *Report of the Rural Banking Enquiry Committee*, 1950, pp. 60-1.

inhibit the Five Year Plan. Co-ordination between the public and private sectors, as to the spheres and sources from which credit shall be mobilized, is in many ways even more important for the agricultural part of the Plan than for that which pertains to industrial development.

'Mobile banks'

10. A suggestion which is made from time to time is that 'mobile banks' should be maintained and run by commercial banks, as a means of tapping rural savings. An experiment on these lines has been initiated by the Bank of Patiala. We are of the view that any extension of this experiment, if that is thought worth while or desirable, should be strictly restricted to areas of which it can be said that they present no near prospect of development in the sphere of co-operative credit. From such areas, again, we would exclude those which must be the special responsibility of Government on account of their economic backwardness or of their being inhabited by backward tribes or classes—though this exclusion would hardly be necessary, since no commercial bank has so far evinced interest in such areas. If, after that, any area is still left which is regarded as suitable for experimentation of the kind represented by the 'mobile bank', we would suggest its being stipulated that the commercial bank undertake to advance in that area, for agricultural and allied purposes, amounts not less than the deposits it collects from the area.

CHAPTER 43

FOLLOW-UP, PUBLICITY, REVIEW AND RESEARCH: RECOMMENDATIONS

Publicity, Review and Research

It is an obvious truth that no big policies and no large programmes of action based on those policies can sustain themselves for long on initiative, finance and personnel alone. This is so even if they are looked at purely from the point of view of organization, i.e., entirely apart from the political and social support without which they cannot be started or if started will soon disappear. Since many individuals and institutions will be involved, whose purposive and co-ordinated action alone can result in the successful carrying out of the policies and programmes of the integrated scheme, there has to be constant exchange of knowledge and information as to the methods adopted, results achieved and experience gained in the promotion of the common aim with which all are concerned. Such exchange requires the proper organization of *Publicity*. The assessment of each stage of performance requires an adequate apparatus of *Review*. The survey and interpretation of all the factors needed to enable the formulation of further lines of policy, main and subsidiary, implies the suitably organized pursuit of *Research*. Our recommendations on these three important aspects, as well as their co-ordination, will be mainly confined to the Reserve Bank. That does not of course imply that corresponding needs of organization are not present, or do not have to be met, in the other institutions, including Governments, which will be responsible for the total effort. Each of the bigger state co-operative banks, for example, might well have a small nucleus of 'research' co-ordinated with the bigger organization in the Reserve Bank. The Central Government and many State Governments have their departments and bureaux for economic and statistical research where the relevant problems could be taken up for study. By and large, however, as among the different State and co-operative institutions, it is in the Reserve Bank clearly that much of this research should be concentrated. The considerations would be somewhat different for Review and Publicity. With regard to these, each Government and institution would have to make suitable arrangements within its own sphere of the functions and responsibilities arising from the total scheme; though even here all the residuary and co-ordinating responsibility must, in our view, rest in the Reserve Bank.

Reserve Bank: Agricultural Credit Department and Rural Economics Division

2. It would be useful at this point to describe briefly the Reserve Bank's present association, both in degree and in content, with Publicity, Review and Research in agricultural credit and connected subjects. As we have elsewhere pointed out, one of the functions of the Agricultural Credit Department of the Reserve Bank is to "maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, state co-operative banks, and other banking organizations". In the discharge of this function, the Agricultural Credit Department publishes, from time

to time, reviews and statistical statements concerning the co-operative movement, as also various pamphlets on matters directly or indirectly pertaining to co-operative credit and to the co-operative movement generally. It publishes every month a *Co-operative News Digest.* Apart from *ad hoc* material collected for publication, the Agricultural Credit Department is continually in possession, through its constant contacts and correspondence with the co-operative departments and institutions of different States, of considerable and more or less up-to-date material regarding the working of the co-operative departments and of the Movement. These contacts have greatly increased during the last three or four years as a result of the programme of visits to different States which the Reserve Bank has undertaken through the officers of its Agricultural Credit and Banking Development Departments. The material thus available serves not only as the basis of decisions on individual matters but also, for instance, of the examination of the broader issues of policy placed periodically before the Standing Advisory Committee. In recent months, considerable information has also been collected regarding the training arrangements, in different parts of the country, for the personnel of the co-operative departments and of co-operative credit and other institutions.

There is also a Division of Rural Economics in the Department of Research and Statistics of the Reserve Bank, consisting of a few officers and other personnel, which is entrusted with the investigation and analysis of specific problems connected with the rural economy. A large part of this personnel, together with some of the personnel of the Agricultural Credit Department etc., has in varying degrees been associated with the operations of the present All-India Rural Credit Survey. The field experience gained by some should be of great value in the type of research which we hope they will be called upon to undertake in future. There is now, as a result of the Survey, a large accession of material, some of which should be extremely useful for the further investigation of specific problems connected with rural credit and the rural economy. Since, of course, only the more basic material has been used for the All-India Report, much remains for detailed research which can be so planned as to be of practical use either for different States and regions or in relation to relatively minor, but by no means unimportant, aspects and problems of policy. Some of this material will, we hope, appear in the 'District Reports', the publication of which is suggested by us later in this chapter.

Follow-up of the Survey

3. Against the background given above, we propose to deal with the following items:

(1) follow-up of the Survey in the field;

(2) follow-up of the Survey by further publications;

(3) future lines of Publicity, Review and Research; and

(4) future organization of Publicity, Review and Research.

While we do not suggest that anything comparable in scale to the present All-India Survey should be repeated in the near future, we do strongly urge the need for a constant review—i.e., a review to be kept up year after year—of all the main features of the credit situation in the rural sector; and we recommend that a suitable machinery for this purpose should be devised on the basis that it will be operated by the Reserve Bank in collaboration with the Central Government, the State Governments and selected organizations, including research institutes, economics bureaux and universities. What we envisage is a

co-ordinated all-India machinery of which the different parts are supplied from time to time, for the requisite periods, by the Reserve Bank and by the different Governments and institutions concerned with the actual conduct of each enquiry. As a rule, the annual investigation would be in the nature of a sample enquiry of moderate scope; but in particular years, if the situation so demands, it could, of course, be more elaborate. The main responsibility, including the function of co-ordination, would vest in the Reserve Bank. The recurring investigation, research and check-up for which this machinery would be responsible would in broad content, though not in the complexity of detail, correspond to the lines of enquiry pursued in the Rural Credit Survey. In particular, the aim would be to investigate and assess (*a*) any significant changes in the situation on the 'demand' side of credit, including the outstanding debt and borrowings of different classes of cultivators; (*b*) the nature of performance of the different agencies on the 'supply' side of credit, including the manner of operation of the institutions set up under the integrated scheme here recommended; and (*c*) any matters of special significance, including any developments of importance which may be taking place in the context of the larger socio-economic background of rural credit to which we have invited attention in this Report.

On the basis of the findings of continual expert investigations of this kind, it would be possible to modulate policies and measures to important changes in circumstances as they take place and also, when necessary, to initiate special steps of prevention or remedy before any great mischief has been done.

We mentioned in Chapter 1 that, for the 'selected' districts of the Survey, 'District Reports' have already been prepared in draft form. Not all these drafts, however, even with modifications, would be suitable for publication. In some cases, for example, the adequacy of response or the range of material collected or the quality of investigation or all three would not be quite up to that standard of utility which alone could be held to justify the publication, individually, of so small a sample of material as that for each district. A large number of the District Reports, however, could quite suitably be published after further work has been done on them, and we recommend the organization of a small section in the Division of Rural Economics for devoting uninterrupted attention to this work and bringing out the publishable Reports speedily, one after another. We further recommend that, besides the District Reports, individual statistical statements or research papers or other forms of embodiment of useful material, or useful analysis of material, be brought out from time to time by the Division of Rural Economics. Attention should be principally directed to material unused, or aspects not dealt with, in the broader treatment inseparable from the requirements of an All-India Report or, in their own context, even District Reports; priority, moreover, should be given to matters of real practical significance, e.g., for enabling formulation of minor policies complementary to those we have recommended, or for devising measures in solution of problems which, though not all-India in character, may be of special importance to particular States and regions.

Future lines of Publicity, Review and Research

4. That brings us to the question of those requirements of sound organization which should govern the interrelations in the Reserve Bank between the different divisions and sub-divisions of functions represented by (1) collection, compilation and publication, (2) study, assessment and review, and (3) investigation, analysis and research. These functions, as we have said, to the extent they are at present exercised, are split

up between the Agricultural Credit Department and the Division of Rural Economics. We may add that of the jobs hitherto done by the latter ever since its establishment, overwhelmingly the most pertinent and the most important have been those which it has had the opportunity of undertaking as a result, and in the course, of this Survey. We may start by ignoring, for the moment, the existing organizational division, between the Agricultural Credit Department and the Division of Rural Economics, of the duties here relevant, and attempt an empirical classification of the individual tasks involved. These may be said to be

(i) Compilation of statistical material

(*a*) for publication of statistical statements and (*b*) for use by the Bank for decisions and policies;

(ii) Compilation of statistical as well as other material for

(*a*) publication of reviews on the co-operative movement and (*b*) use by the Bank for decisions and policies;

(iii) Study of specific problems on the basis of such material for

(*a*) publication of *ad hoc* monographs on different subjects connected with the co-operative movement or (*b*) use by the Bank for decisions and policies;

(iv) Study of Indian as well as foreign literature, published and unpublished, for bringing out monographs on different subjects of interest and utility to the Indian co-operative movement;

(v) Publication of official or departmental brochures such as those pertaining to the Standing Advisory Committee or the Central Committee for Co-operative Training;

(vi) Publications intended to influence wider policy, with especial reference to the co-operative credit movement, such as Bulletin No. 2 of the Agricultural Credit Department on ' Co-operative Village Banks ' which expounded and put forward for adoption the multi-purpose idea;

(vii) Publication of periodical bulletins such as the *Co-operative News Digest*;

(viii) Investigation, analysis and research, i e., ' research ' properly so called, properly organized, and properly directed in application to problems of practical importance; and

(ix) Publication of the results of such research.

While these more or less exhaust the formal lines of activity (including some which are not now actively or adequately pursued), we are of the opinion that some of these functions need to be more clearly defined to itself by the Bank and more definitely related to the practical needs and implications of policies actually in operation or in the course of evolution and formulation. We would suggest the following main ways in which the scope and content, and to some extent the manner and detail, of these functions require modification:

Data for assessment of performance of co-operatives

(a) In the compilation of statistical and other material it should be constantly borne in mind that one of the main objects of a review of co-operative credit and allied activities is to judge whether effort is proceeding in conformity with the policies decided upon by Government and, in particular, whether the benefit of the enlargement of credit and of co-operative economic activity is in fact reaching a wider range of cultivators, especially at the middle or at the far end of the economic scale.

Data on agencies other than co-operatives

(b) The statistics now collected by the Reserve Bank in the context of rural credit tend to be confined, by and large, to the co-operative credit movement. From the commercial banks, for example, only the broadest particulars are collected; and, with reference to individual banks, the publication of even these particulars is usually regarded as subject to statutory and other forms of taboo, on grounds of which the tenability seems to us to require re-examination in the new context of national planning and of the private sector's acquiescence in, presumably even acceptance of, the place allotted to it in the Plan.[1] Then there are the State Governments and the Central Government; and the latter's contribution, in particular, is a substantial part of the Plan's targets of institutional agricultural credit. Yet, it is extraordinarily difficult to make out from its own budgets or other published data what exactly the Central Government has been doing, how much it has provided, how much of the provision has been actually disbursed as loans to the cultivator (and not merely as loans to the State Government) and what the different types of credit provided are. This, in their own sphere, applies to State Governments as well. Clearly, the present practice needs to be changed. In discharge of the overall responsibility we have suggested, it will be necessary for the Reserve Bank to suggest to each agency, and persuade it to accept, the appropriate reforms in the mode and adequacy of the collection, compilation and presentation of information. On the proper carrying out of this will depend the efficacy and usefulness of its own compilation, publication and review of the total information.

Research in rural economics

(c) While compilation, periodical publication of reviews, and *ad hoc* publication of brochures on specific subjects and of proceedings of different committees is relatively simple, that part of the activity which may be more appropriately described as research in rural credit and economics will have to be both better and more extensively organized in the Bank, just as it requires, in its actual working, to be more usefully and intimately associated with problems of practical importance. These problems would be (i) those which arise in the day-to-day working of the Bank and need more or less immediate decision on the basis of adequate and properly analysed material, and (ii) those which require, and can await, a more deliberate formulation of short-range or long-range policy, whether

[1] An instance in point is the Imperial Bank's refusal to permit us to publish certain statistics relating to it. We have referred to this in Chapter 15 (page 181).

main or subsidiary. The problems of rural credit, with reference to these requirements and categories of policy, and in their relevance to the whole of India or different parts of India and to different agencies of rural credit, should be periodically analysed and listed by the appropriate top executives of the Bank, who should also allot the proper priority to each of the different items for purposes of investigation, examination or other process of research. It is only then that there will be a live, practical and intelligible programme of research for the personnel to carry out.

Administrative aspect

5. We now come to the administrative aspect of the organization of these functions of publication, review and research within the framework of the Reserve Bank and its different departments. Besides the operating department, which is the Agricultural Credit Department, there are two divisions on the research and statistics side which are intimately concerned with the discharge of these functions, viz., the Division of Rural Economics on the one side and the Division of Statistics on the other. Co-ordination of all the three, which may well include physical contiguity of the personnel concerned, is undoubtedly essential. It is also important that, in the Statistics Division, there should be formed a special unit for dealing with statistical matters pertaining to rural credit corresponding to what the research side already possesses in its Division of Rural Economics. We accordingly recommend the creation of such a unit. Whether the actual co-ordination should go beyond this and, for example, both the Division of Rural Economics, and the proposed unit of the Division of Statistics be constituted, for administrative purposes, as parts of the Agricultural Credit Department, is a matter of detail of organization into which we do not propose to enter. In any event, the technical control over the proposed Statistical Unit will naturally have to remain with the Division of Statistics. The question, therefore, resolves itself into whether administrative control, in respect of the Rural Economics Division and the Statistical Unit, should be vested in the Agricultural Credit Department. Obviously, the solution eventually adopted by the Bank will have to cover similar contexts, if any, affecting other departments. We would here merely emphasize that, whatever the device adopted, the need is great for a really effective co-ordination of the research and statistics sides with the main operational department, and for ensuring that this co-ordination is for severely practical purposes connected with the policies, present and future, of the Reserve Bank, Governments, agricultural credit institutions, etc. We would also emphasize that the personnel of the Division of Rural Economics and even of the proposed Statistical Unit (besides of course the personnel of the Agricultural Credit Department with which we have dealt in a previous chapter) should possess, among other things, some field experience of rural conditions and an informed interest in rural problems; in particular, the officers *in charge of* the Research and Statistical Units will have to be selected with special attention to their possession of such knowledge and interest. It is not implied of course that there should be any relaxation, on this account, of the standard of academic and technical qualifications or of individual competence normally laid down for recruitment and promotion.

6. Lastly, we consider that research alone—and research properly so called—should be the function of the Division of Rural Economics. To place on it any duty which can equally well be discharged by technically less qualified persons would be

wasteful of specially trained talent. The Agricultural Credit Department should continue to be in charge of all the duties connected with compilation, review and publication. In the discharge of these functions, there should, as we have already said, be effective co-ordination between that Department and the Research and Statistics Units, the last two giving all the technical guidance and assistance required by the Agricultural Credit Department. This division of functions should be observed even if the two units are administratively made parts of the Agricultural Credit Department.

CHAPTER 44

OTHER MATTERS: ASSUMPTIONS, SUGGESTIONS AND RECOMMENDATIONS

Other matters

THE residuary group of items included in this chapter differs in one important respect from our previous recommendations. The items themselves are intimately, some of them vitally, connected with rural credit and with the success of any scheme formulated for the development of rural credit; yet, they do not bear that relation to the actual scope of our enquiry which would enable, or justify, our classing them with our more concrete and more detailed recommendations. Hence, when we do happen to make a 'recommendation' in this chapter, what is recommended is either a broad course of action as seemingly appropriate or a particular line of enquiry as likely to be promising. In most cases, however, what we make are suggestions rather than recommendations. Finally, where the subject is of great importance, but too wide for even suggestions to be usefully made in the specific context of this enquiry, we merely state the particular assumption which underlies the integrated scheme and conditions its successful working.

The items fall into three categories. There are first of all certain factors which greatly affect the cultivator's economy and therefore his credit. Thus, prices may drop, crops fail or cattle die in an epidemic. Not only are these and similar happenings beyond the control of the cultivator; some of them at least, in varying degrees, may be said to be beyond the present technological, administrative and financial resources of the State. What enlargement of those resources is practicable, and, in specific contexts, what preventive steps might be adopted or remedial measures taken are matters not only important in themselves, but of great significance to the subject of our enquiry. At the same time, obviously, they are not for us to pursue, but rather to take into account. They are the first category dealt with in this chapter.

The second set of subjects relates either to more attainable levels of policy or to narrower spheres of adjustment. They too are items of great import to the villager and his economy in the context in which credit becomes relevant. Among them may be mentioned the vitally important connexion between the poverty of the village economy and the poverty of rural communications and rural transport. The question of railway freights and charges for bus transport would also be relevant here.

The third category is specifically concerned with certain problems of the village handicraftsman, as distinguished from the village cultivator. The credit problem and connected economic problems pertaining to 'cottage industries' or, at a somewhat higher level, 'small-scale industries', have naturally received only passing mention in the main part of our recommendations. Certain broad suggestions for enquiry or broad recommendations for action will, therefore, be necessary. An integrated scheme of credit having been suggested for the cultivator, the question cannot be avoided whether

this scheme can be related to the credit needs of the handicraftsman. An answer has to be indicated even if this is not the place for attempting it in any detail.

Stabilization of agricultural prices

2. In the first category, the question of prices is the most important. The best system of credit will suffer if prices fall sharply. This needs no explanation; but an illustration may not be out of place. We quote from the *Proceedings of the Fifteenth Conference of Registrars of Co-operative Societies* held in May 1947. The extract is from a speech of an experienced Indian administrator[1] who was at one time a Registrar of Co-operative Societies:

> " I am thinking of some few years ago when I was a Registrar of Co-operative Societies myself. When I took over charge, I was told that the Movement was in such a stage that even the rats had left it. I realized that it was quite impossible to take up the rehabilitation of the Movement as a whole. I said 'Let us concentrate on one district and see what we can do and then we shall extend our activities further.' So we took up work in one district and concentrated the staff on that district by even depleting other areas. At the end of four years what we found was that in a district where the name of Co-operation used to stink, people started coming all the way a hundred miles to Lucknow in order to ask that co-operative societies should be started for their villages. Having got as far as that, within one month, the whole thing fell through simply because prices dropped and the bottom was knocked out of the market. The result was a feeling of utter hopelessness and helplessness among the cultivators. They began to despair, saying 'What is the use of producing more if the result is that we are going to be paid lower prices than before'. I do maintain that the question of prices is fundamental to all agricultural improvement and all co-operative organizations. You may organize the best co-operative society, you may give them loans; but if tomorrow the prices drop you will find that all your loans become bad debts and it is for that reason that it is essential for co-operators to realize the importance of the price factor and to see that they do not drop to uneconomic levels and a stable minimum price should always be maintained. I am supposed to be a crank on this subject; but I have myself seen the result of neglecting this one item which is really the corner-stone of the whole rural economy of the country. We can put up the best structure but if we forget the corner-stone we may be certain that the whole structure will collapse ere long. I do insist that the need for a fair and equitable minimum price should not be lost sight of when we are thinking of co-operative organizations."

For reasons so forcibly illustrated above, it is clear that underlying all our recommendations is the important consideration that Government's price policies will be such as to ensure the stability of agricultural earnings and therefore the stability of agricultural credit. It is no part of our task to go beyond this assumption and indicate the detailed features or even essentials of an overall economic policy which, besides other things, will provide for this important requirement. We will content ourselves with pointing out again, as regards price support, in the event of the need for it arising and of the policy itself being adopted by Government, that there will at any rate be, as part of the machinery

[1] Shri Pheroze Kharegat.

of implementation, an important instrument of policy in the widespread network of godowns, warehouses and storage accommodation, together with an organized structure of co-operative processing and marketing, which will have been established all over the country if one of our main recommendations is accepted and carried out. The same is true of the reverse contingency of a policy of price control. To the extent that Government decides to seek to influence agricultural prices in either direction by itself entering the market on a large scale, the first and most important step in the operation is the purchase of the produce of the cultivator. If the context is price support, the purchase is at a guaranteed minimum price; if it is price control, the purchase is at a prescribed maximum price. In either case, obviously, there has to be an adequate administrative machinery; but there will also be needed the sheer physical accommodation for storage of grain all over the country. The warehousing organization we contemplate, designed as it is to develop such accommodation as also to co-ordinate it between the all-India, State and village levels, will have in its possession the physical storage; further, it will be able to make available an extensive body of trained personnel for custody of the produce and for its grading and valuation.

Forward markets

3. On the subject of price fluctuation, there is a specific suggestion we would add to the assumption we have made as to policy. It concerns the role of forward commodity markets in the context of price variations as they affect the cultivator's produce. These markets have, in a legislative (though not yet in a detailed organizational or administrative) sense, been recently brought under some measure of State control on an all-India basis. Prior to the passing of the Forward Contracts (Regulation) Act, 1952, there was indeed some degree of governmental control over these markets, but this was largely confined to the Bombay State where a system of control (especially in respect of forward trading in cotton) had been in operation for some time. Many features of that system are now incorporated in the all-India legislation. The main forward markets, such as those in cotton, oilseeds and jute, are in Bombay and Calcutta. Cotton and oilseeds in Bombay, the former for more than two decades and the latter for a few years, have been operating under the system referred to, which is essentially one of Government exercising control through 'recognized' associations, usually only one for an area. Jute in Calcutta still remains unorganized and uncontrolled in this particular sense. We do not propose to go into either the principles or the details of governmental control over these and other forward markets in the bigger cities and elsewhere, but we are definitely concerned with suggesting that the object of such control and the nature of its exercise and implementation be investigated with a view to formulating definite courses of action: firstly, for ensuring that these institutions do not harm the cultivator and secondly, in order that they might, if possible, be so reorganized as to be of positive benefit to him, whether individually or, what is more important, through his co-operative organizations. We are aware that, in theory, forward commodity markets, including hedge markets, are regarded as a means of making available some degree of price insurance for both seller and buyer, that is to say, for both cultivator and consumer, whether the latter is a cloth mill or an oil factory or the purchasing public itself. The theory often fails to translate itself into practice. That happens for various reasons. The essence of the theory is that, given a suitable commodity and an organization of the proper kind, there will at any given moment be two distinct groups of speculators —as distinguished from mere gamblers—one of which is prepared to buy, and the other

to sell, at a mutually settled 'forward' price; that the individuals composing these groups have specialized knowledge of the factors which govern the price fluctuations of the commodity; that they are prepared to take, for possible high returns, actual high risks, connected with the fluctuations which otherwise would fall on producer or consumer; that, in order that the risks may not overwhelm them, only those are allowed to operate who, individually, have the resources and financial stamina to stand losses, while also of course absorbing gains, when either come their way; and, finally, that the almost minute-to-minute negotiations, which take place between these two groups on the floor of the particular exchange, are conducted in accordance with a set of rules and a code of behaviour which prevents them from taking undue advantage either of one another or of the producers and consumers whose interests they are supposed to serve. In practice, more than one of these assumptions regarding possession of the needed knowledge and resources, existence of adequate rules and codes, adherence to such rules and codes as may exist, operation of only one 'recognized' institution in one area, proper internal control by the institution itself, proper external control by Government, and, finally, proper co-operation and co-ordination between internal and external control, are usually found to be based on what is non-existent, unenforced or neglected. We would not be understood as implying that these institutions are bad or inefficient or serve no useful purpose; on the contrary, some of them, notably the East India Cotton Association, enjoy a long record of usefulness. We are concerned with these forward commodity markets as a whole and with the difficulties—e.g., the important jute markets of Calcutta, forward and 'futures', have not even come under control so far—which, by and large, prevent their price insurance function from being translated into tangible advantage for the cultivator. Indeed, so far as we know, no cultivator, big or small, has ever taken part in the transactions of these organizations; though here again theory would say that he nevertheless derives the ultimate benefit. As for co-operative societies, we doubt whether any of them have participated, and if so whether they did so on an appreciable scale. But, apart from possible benefit to the cultivator, there seems to us a very real danger of actual harm to his interests. For at times, as is well known, instead of dealing knowledgeably and adequately with the outside factors which govern price fluctuation, the speculators and operators themselves create factors which succeed for a time in changing the price situation; that is to say, it is not uncommon for the more resourceful and enterprising among them to take undue advantage by either 'cornering' what there is to be bought or selling away what they have managed to get into their possession—not of course the actual commodity in all cases but, more usually, the right of eventual purchase or sale —and in this manner bring about 'bull squeezes', 'bear raids' and other similar phenomena, appropriately redolent of the jungle, which overnight upset the price situation and bring damage or disaster not only to the opposite group of speculators (which often deserves it), but also, by repercussion, to the manufacturer, the trader and the cultivator himself. It is for this reason that we consider it important that an adequate enquiry should be conducted for ascertaining

(1) the extent to which damage, if any, is caused by these institutions to the interests of the rural producer; and, if the damage is appreciable, what measures are needed to prevent it; and

(2) whether these institutions can be so re-designed and controlled, as not only not to do harm to the cultivator (if that is the present position), but to be of

positive benefit to him, in the context, especially, of his economic activities being reorganized under State partnership in the manner recommended in this Report.

Famine Funds

4. On one other aspect of price fluctuation, namely, its effect on co-operative agricultural credit and on the need therefore to make arrangements for stabilization of such credit, we have already made recommendations such as those connected with the National Agricultural Credit (Stabilization) Fund in the Reserve Bank and corresponding Funds in the state co-operative banks etc. For that stage of need where the remedy has to be relief to, and not merely stabilization of, the credit institution, we have recommended establishment of the National Agricultural Credit (Relief and Guarantee) Fund with the Government of India and of corresponding Funds with the State Governments. These steps which, as we have said, are confined to credit, should perhaps have as their logical complement similar steps designed to meet the wider economic dislocation caused by famine, flood, etc. There are of course Famine Funds in a number of States. Such particulars as we have been able to obtain indicate that, in certain States at any rate, these Funds cannot be regarded as really adequate, especially if scarcity and famine recur so often and so extensively as, for example, they unfortunately have in Madras in the recent past. We therefore suggest investigation of the need (i) for increasing the State Famine Funds, (ii) for instituting such Funds in States which have not hitherto established them and above all (iii) for the Government of India to institute an adequate Central Famine Fund in order that individual States may be helped by loans etc., to tide over the difficulties created by any acute or recurring conditions of famine or scarcity, or some grave disaster such as a severe and extensive flood. Such a measure as the institution of a Central Famine Fund, assuming that it is found necessary on enquiry, would be also of incidental but great help in the more restricted context of agricultural credit, since obviously credit rehabilitation will be quicker and easier to the extent that the wider economic rehabilitation of the area is itself rendered quicker and easier.

Crop and cattle insurance

5. Crop failure, without being so widespread as to constitute scarcity, much less of course famine, may yet in a restricted area be as severe in its effects on individual cultivators or individual villagers. If State relief can mitigate the effects of the former, can some form of State insurance be devised to reduce the hardship caused by crop failure? It is certain that no private agency in India will take up crop insurance as a business line. The co-operatives cannot. The Co-operative Planning Committee, 1946, observe: "Crop insurance in India in the present circumstances appears . . . beyond the scope of private agencies or co-operative organizations, firstly by reason of the lack of reliable statistical data and secondly because of the inability of the peasantry to bear the incidence of its cost." The Committee nevertheless go on to suggest that "some scheme will have to be devised in course of time to protect the agricultural classes from the risk occasioned by the loss of their crops." and that "profiting by the experience gained in the United States . . . a scheme of crop insurance should be undertaken experimentally by the State."[1] We ourselves believe that until the economic condition of the cultivator is first raised by measures such as those we have recommended, technological devices against floods adopted on a wide

[1] *Report of the Co-operative Planning Committee*, 1946, pp. 152-3.

scale, irrigation so extended that large tracts of the country are less and less dependent on rain and more and more on assured water supply, the vital problem of soil conservation tackled on a country-wide scale, and various other measures taken such as more effective protection against pests, the total amount of risk involved in crop failure in Indian conditions is so great, and the resources wherewith to cover that risk so small, that it would be unrealistic to think that any worth-while scheme of crop insurance can be initiated by the State anywhere in the near future.

On cattle insurance too, the Co-operative Planning Committee have made certain suggestions. They recall that cattle insurance societies had been formed, but did not succeed, in Coorg, Bombay, Punjab, etc. They say: " The societies worked well for sometime, but lack of close supervision, disproportionately heavy administrative expenses and general deterioration in the condition of the co-operative movement contributed to their failure. They were ultimately wound up." The Committee go on to point out that " experience gained in Burma where the entire scheme failed despite the existence of a re-insurance society shows that the existing conditions are not suitable for entrusting this business to a co-operative society".[1] The Committee nevertheless think that an experiment might be useful, and if successful could be extended; their recommendation is that the State should undertake the experiment to start with, and the co-operatives last of all. Here again, in our view, it would be more realistic to concentrate on schemes for strengthening the veterinary departments of State Governments so that cattle epidemics are better controlled, as well as on schemes for breeding better cattle, organizing dairy co-operatives (which provide an incentive for such improvement), and so on. So great is the extent of progress yet to be made in India towards having more and more of the better cattle, and less and less of the weaker or useless, that efforts meanwhile to promote schemes of cattle insurance are not likely to meet with any significant success.

In regard to both crop insurance and cattle insurance, our main point is that effort and attention should not be diverted from the more practical to the less practical means of effecting economic improvements in the rural area, in view of the limited resources of the country in finance and trained personnel.

Village roads

6. We now come to the second set of items, mentioned at the outset, of which the most important is village communications. Deplorably absent as a rule, and deplorably bad if and where present, these communications, absent and present alike, are most deplorable when considered as the hiatus which they in fact represent between field and market. Speaking of similar conditions which hamper marketing in all the under-developed parts of the world, an American economist calls them " the most atrocious handicap of all to progress on the farm, and the leeches that drain the life's blood . . . from the rural communities". He adds: " Rural marketing, to be efficient, must have good roads and bridges or ferries over rivers and creeks and through swamps. No development in this country [United States] was more beneficial to agriculture than the construction of turnpikes, railroads and highways."[2]

The figures of mileage quoted in Chapter 6 show that the leeway to be made in this country is colossal. It is the cultivator who pays for the lack of development; the low

[1] *Report of the Co-operative Planning Committee*, 1946, p. 150.

[2] Dr Karl Brandt of the Food Research Institute, Stanford University, *Proceedings of the International Conference on Agricultural and Co-operative Credit*, 1952, Vol. I, p. 525.

priority which our plans assign to this item is at high cost to him. The provisions made in the Five Year Plan and the suggestions there included for the improvement of village communications may be illustrated by the following quotations from the Five Year Plan and the recent brochure on the progress of the Five Year Plan:

> " As regards village roads, the broad aim should be to connect the more important villages with marketing centres and district headquarters. The absence of a sufficient mileage of village roads is a serious drawback in the system of communications. The State Governments should pay special attention to the construction and maintenance of these roads and for this purpose enlist the co-operation of villagers. In certain States, village roads are, in fact, being developed with the active co-operation of the villagers themselves who contribute a portion of the cost of construction by way of free labour, free gift of land or money, the balance being contributed by the State Government or district boards. As a token of the Central Government's interest in the development of village roads, the Roads Organization have formulated a 'model scheme' for village road development on a co-operative basis and has made an initial offer of a grant of Rs 15 lakhs from the Central Road Fund Reserve as a contribution towards specific projects."[1]

> " With regard to State highways and district and village roads which are the primary responsibility of the State Governments, the progress achieved in physical terms cannot be accurately stated as statistics on a sufficiently uniform basis are not yet available. On a rough reckoning new construction and improvements (including village roads) accounted for about 3,300 miles in 1951-2 and about 3,900 miles in 1952-3. These figures, however, include certain roads on which work had been in progress before the beginning of the Plan period but has now been completed, and certain others on which work had not been finally completed but had progressed sufficiently for the roads to be opened to traffic."[2]

We quote these passages to show that so much, with apparently so little assistance, has been left to be done by State Governments—what comes from the Central Road Fund is not even a dribble compared with what goes to National Highways etc.—that little or no progress seems even contemplated in relation to this vital aspect of rural economic development. We would suggest the allocation of large funds and the diversion of a large effort to the improvement of village roads and in particular the allotment of a high priority to those communications which connect the villages to their marketing centres.

Transport charges

7. But roads alone do not make transport, though bad roads make transport impossible or costly. The features which we have just noticed may be described as characteristic of transport conditions as well. State-owned bus transport has begun to operate in varying extent in different States; but these buses have not yet taken up transport of goods and produce on any appreciable scale so that they are not of particular use in this context. There are large rural tracts which are not served by the railway system. We recommend that transport conditions should be reviewed in relation to rural areas. We would also suggest an

[1] *The First Five Year Plan*, p. 481.

[2] *The Progress of the Plan*, January, 1954, p. 77.

immediate examination of the rates which railways, State buses, etc., charge for the transport of the cultivators' produce to the consuming areas, with a view to considering what reductions may be given effect to, without delay, in the rates now charged.

A similar review, to the extent the State can influence the position, should be undertaken in regard to the rates charged by boat and steamer services wherever the sea and rivers and canals are the main means of transport. What we have stated above regarding roads in the rural areas also applies to bridges, ferries, etc., which in many tracts of the country are grievously neglected after construction or have never been constructed at all. We suggest that these too be taken into account in a more determined and much more adequately financed programme for the improvement of rural communications.

In this connexion may perhaps be mentioned the existence of co-operative organizations for transport etc., some of which have been referred to by the Co-operative Planning Committee in their Report. That Committee recommended *inter alia* that co-operative transport societies should be encouraged, co-operative workshops set up for servicing motor transport and, in certain areas of the country, transport by country-craft organized, as far as possible, on a co-operative basis. We endorse these suggestions.

Finance for rural industries

8. The last category of items in this chapter concerns the important subject of finance for cottage and small-scale industries in the rural area. The place of these industries in the rural economy as a whole, as also in the larger picture of the Indian economy, has been broadly indicated in Chapter 8. We may consider the question of finance from the point of view of (1) cottage industries organized on a co-operative basis and (2) those not so organized. The latter present certain problems which are common to the whole sector of medium-scale and small-scale industry, urban as well as rural. It would take us far away from the scope of our enquiry to discuss those problems in any detail. We would only point out that the establishment of the State Bank of India, with branches going down to the interior of the district, may prove to be of some assistance in devising institutional remedies for difficulties connected with short-term finance for these industries, just as the state financial corporations are likely to be of help to them for medium and long-term finance. Here, however, we propose to confine ourselves mainly to such cottage industries as are, or can with advantage be, co-operatively organized either in respect of production or of particular aspects connected with production, such as purchase of raw material, common use of the costlier implements, sale of the finished product, etc. To take the most important of the cottage industries, it may be said of the handloom industry that almost all the committees etc., which have investigated its problems of finance and rehabilitation have come to at least one common conclusion, namely, that the most suitable way of reorganizing the industry would be the co-operative one. At this point, however, arise several difficulties, for it has been found that it is no easy matter either to get a large part of the industry, or a large number of the different economic and other stages and processes connected with it (from purchase of yarn to sale of cloth), into a co-operative form of organization. We would hazard the suggestion that, making allowance for certain obvious differences, many of these difficulties will be found to have a parallel in the problems we have studied in connexion with the organization on a co-operative basis of agricultural credit, agricultural economic activity, etc.

Difficulties of cottage industries

9. Taking up first those difficulties which are special to cottage industries, as distinguished from agriculture, three main items are obvious:

(1) Cottage industries have to face the competition of larger, better organized and technically much more competent units in the shape of the manufacturing industries situated in towns and cities.

(2) The market for cottage industries is much less assured than for the agricultural industry. Fortunately for the latter, food is firstly wanted by all, and secondly is still grown on land and not in factories. For cottage industries, on the other hand, the essence of the problem is to find a market and then not lose it to a more powerful urban competitor.

(3) The other important special problem for many cottage industries is the finding of the raw material. Thus, one of the greatest difficulties of the handloom industry, except perhaps in periods of control, has been that of the purchase of yarn. A number of weavers' co-operative societies, it is interesting to note, are little more than societies for buying yarn and distributing it among their members.

Apart from these items, all of them grave and all of them important, the nature of the difficulties seems essentially the same for cottage industries as for agriculture when looked at from the point of view of the reorganization and rehabilitation of the industry on a co-operative basis. The main and still largely unsolved problem for co-operative cottage industry is, we suggest, the same that has been faced by co-operative agriculture, namely, how to make a combination of the very weak strong enough in relation to the much stronger. Just as there is the moneylender in the sphere of agricultural credit, so there is the *karkhanadar* for each important cottage industry, with the difference that he combines in himself the handicraftsman and the financier. The *karkhanadar* is himself part of a wider system of private finance. Thus a whole set of private creditors, financing agencies, marketing agencies, etc., deal with the individual small weaver, as do the private traders and private financiers with the cultivator. We would, in this connexion, quote from a note which appears in the First Annual Report (1954) of the All-India Handloom Board, the italics however being ours:

" Since, according to the Fact Finding Committee's Report, the unorganized condition of the industry is responsible for its abnormal high marketing costs and its consequent evils, it is but natural to accord pride of place to the organization of the industry in all schemes aiming at the stabilization of the ancient industry and thereby ensuring the prosperity of the weavers. According to the Fact Finding Committee, the official agencies have fostered only *co-operative organizations which have, speaking generally, suffered from financial weakness, inefficiency of management and inability to cope with fluctuation in yarn prices and with marketing of the finished product. The Committee has also emphasized the age-long social and business relations and, in most cases, ties of caste and creed between the master-weavers, sowcars and mahajans, on the one hand and the weavers on the other, which may have been primarily responsible for the half-hearted support accorded to the co-operative movement.* It is also possible that the lack of credit facilities on social occasions such as marriages, pujahs, *absence of any effective voice in the management of co-operative organization*

and the smallness of the capital invested by him in the society did not evoke the enthusiasm of the weaver who preferred to eke out an existence as best as he could with the aid and support of the master-weaver or the sowcar mahajan. It is also not unlikely that co-operative organizations invited within their fold only the weavers and thus alienated the sympathy of the master-weavers and the mahajans."[1]

" The next question of importance is the question of marketing. In so far as the independent weavers are concerned, they form the smaller proportion of the weaver population in the country; *no tangible relief could be possible unless they join either the co-operative or any other organization which may be fostered. Their slender finances, chronic indebtedness and, therefore, complete dependence on the yarn dealer for the supply of yarn on credit leave them no option other than that of selling at the buyer's price.* Unless, therefore, they are brought within the fold of such organization as would supply them yarn on credit and take back the finished product at prices based on standard wages and replacement cost of yarn, they would in due course of time be relegated to the position of mere wage-earners.

" . . . The numerous types of middlemen and the functions of each has been dealt with fully by the Fact Finding Committee in paragraphs 60 to 63 of its Report, and the Committee has discussed the middlemen's profit in paragraph 124. The Committee has also come to the conclusion that ' *there are far too many middlemen participating in the trade and that their efficiency and individual turnover are much lower than they should be. At the same time, there are many middlemen who appear to be keeping their heads above water by taking a proportionately higher share of the gross profits of the industry than the weaver himself.*' The Committee has emphasized that the cost of marketing of handloom fabrics is ' prohibitively high and that the middleman is largely to be blamed for this'. 'The principal problem, therefore, so far as marketing is concerned, is how to reduce the marketing costs.' The Committee has suggested the ' pooling of the resources of the middlemen into a large-scale organization for marketing, under the auspices of sellers ' co-operative society '."[2]

Industrial co-operatives

10. It seems to us clear from the above extract that it will be futile in the context of the powerful competition of the middleman, the master-weaver. the yarn-merchant, etc., to hope that the weavers can, with mere administrative encouragement or (as seems to be now done) even the giving of loans for their subscribing to the share capital of societies, be able to form themselves into a strong co-operative organization which is able to compete with the other interests. It is interesting to recall in this connexion that even in Madras, which has perhaps the best record of co-operative effort in the handloom industry, the number of looms organized on a co-operative basis is only about 25 per cent of the total. Calculated on the basis of total loomage, the percentage for all-India is about the same, but the explanation for this appears to be that, among such co-operative societies are included a very large number which have no co-operative purpose other than that of buying yarn. It seems to us that the problems of the medium and small handloom weavers should be sought to be solved on somewhat the same lines as we have suggested in respect of the medium and small cultivator. In other words, Government should enter as a financial partner, besides providing the requisite administrative, technical and other assistance.

[1] *The All-India Handloom Board, First Annual Report*, 1954, pp. 26-7.

[2] Pp. 30-1.

It is only then that it will be possible to get the weavers together into a powerful co-operative body which can hope to compete with the other agencies. What part in such participation should be played by the All-India Handloom Board (as distinct from the Central Government on the one hand and the State Governments on the other) is a matter we shall not deal with as being beyond the scope of these broad suggestions. All that we would say is that it seems to us that the Central Government and the Handloom Board should think in terms of active State partnership in finance and State participation in organization, as distinguished from a programme confined to loans, subsidies and similar *ad hoc* assistance.

What applies to handloom seems to us also to apply to other cottage industries and we recommend its being examined, in relation to the more important of these, whether any real progress is possible without similar programmes of State partnership and State participation. Here again, we would not go into details of the relative roles which, in such a context, might be allotted to the All-India Khadi and Village Industries Board on the one hand and the Central and State Governments on the other.

Capital and credit needs

11. As regards credit arrangements for these societies, we have already indicated in some of the foregoing chapters that all sectors of co-operative credit, and not merely co-operative agricultural credit, should be included within the scope of the State-cum-co-operative credit institutions we have recommended, including the larger-sized primary credit societies at the base. The consideration that Government will be the major partner in these institutions is an additional argument for not attempting to establish a parallel credit structure either for co-operative cottage industry or for any other economic sector of Co-operation at any of the different levels involved.

It is necessary at this point to consider the credit needs in question from the point of view of the periods involved—i.e., short-term credit, medium-term credit, etc.—and to examine the possibilities of co-ordination between the different credit agencies associated with Government which cater for different needs of this kind. In doing so, it would be convenient to relate our suggestions not merely to co-operative cottage industries but to the other rural industries, e.g., processing of agricultural commodities, which we have recommended should be promoted on a State-cum-co-operative basis. The two categories, both of them rural and both of them co-operative, are therefore

(1) co-operative agricultural industries such as processing, dairying, etc., and

(2) co-operative non-agricultural industries such as handloom, leather goods, etc.

We may consider, in respect of both these, the types of credit needs which exist and the types of credit institutions that are available.

It is necessary to distinguish between two types of capital and credit requirements. First of all, there is the need for block capital consisting of share capital and borrowed (long-term or medium-term) capital for setting up the co-operative plant etc., for obtaining the initial equipment for it, or for getting such equipment at a later stage, e.g., for replacement or enlargement. The second is the need for working capital, that is to say, capital for buying raw material, paying wages, administrative expenses and so on. As regards block capital, firstly we have recommended for agricultural industries (such as those for processing) that the State should participate to the extent necessary, i.e., the State

should put in the balance of share capital after the co-operatives have subscribed. For other requirements of long-term and medium-term capital we have today the state financial corporations in some States, together with the prospect of their being established in many of the remaining States. We suggest the desirability of the state financial corporations adopting a positive policy of assisting by loans the development of co-operative agricultural and industrial enterprises, so long as these are in and for rural areas. These loans, as already mentioned, would be for the purpose of setting up the plant or factory, buying the equipment and so on. The state financial corporations are not, as a rule, designed to give short-term credit and, therefore, the need for working capital must ordinarily be met from other institutions.

For working capital, it is to the state co-operative banks, central co-operative banks, etc., that these industries should turn. The co-operative banks should work in close conjunction with industrial co-operatives, i.e., primary societies formed by village handicraftsmen to undertake either co-operative production or one or more of the processes and services antecedent or subsequent to production. We are of the opinion that industrial co-operative banks are not likely to have any significant contribution to make. They would not only be a duplication, but are likely to be a weak and unnecessary duplication. Whatever the origin of such separate co-operative banking institutions for separate sectors of economic activity, wherever they exist, we believe that, under the integrated scheme at any rate, they will not serve any useful purpose. This comment implies a positive obligation, correspondingly, on the State-cum-co-operative credit structure we have suggested. It will be necessary for that structure (or for the State on its behalf) to recruit and train the technical staff necessary for dealing with agricultural, cottage and small-scale industries in relation to their short-term, and in some degree their medium-term, credit needs. It will be needless for each of the different kinds of institutions we have been considering, especially where they are in the same State, to attempt to build up all the different types of technical personnel itself. There should be considerable co-ordination and exchange of part-time services of technical personnel between these institutions, e.g., between the state financial corporation and the state co-operative bank. In fact, the co-ordination, and therefore reduction in unnecessary duplication of specialized staff for which no one institution is ordinarily likely to have sufficient work, should extend beyond the State and beyond the State or State-associated institutions.

Reserve Bank finance for industrial co-operatives

12. If proper provision is made for the technical and financial assessment of the borrowing industrial units, and if sound business methods are evolved by the co-operative banks when dealing with such units, we believe that, for the more important cottage industries at any rate—and these we hope the Reserve Bank will put in its approved list for the purposes of Section 17(2)(bb) of its Act—there might be envisaged a reasonable supply of short-term finance from the Reserve Bank as well as by the mobilization of such local and other resources as may be open to the co-operatives.

It is clear that, in this field, there is considerable scope for planning and co-ordination and that the Reserve Bank, the state financial corporations, the industrial co-operatives and the co-operative credit institutions will have to work in close conjunction in order that there may be brought about, for cottage industries of proved value and stability and economic significance, an increase in the supply of long-term and medium-term capital,

as well as of short-term funds and working capital. We recommend that, so far as the development on the credit side of these industries is concerned, the Reserve Bank should play an active part, and assist not only in establishing sound practices and conventions, but also in promoting the requisite forms of co-operative organization at the different levels.

Problems for investigation

13. These, of course, are no more than broad suggestions and indications. The planned provision of different types of finance for cottage industries, which can only be in conjunction with a planned programme of development of those industries, will require thorough investigation by a competent body before a scheme of credit for cottage industries, co-ordinated with that for co-operative agricultural credit, can be worked out in detail. The funds to be created, the personnel to be trained and, before all this, the functions to be allotted to the different bodies and authorities concerned, i.e., the Central Government, the State Governments, the two statutory bodies connected with handloom and village industries including *khadi*, the state financial corporations, the different types of co-operative organizations in different States, all these will have to be worked out in relation, among other things, to the integrated scheme of rural credit we have recommended. Our suggestion in this connexion, therefore, is that the whole matter of credit arrangements for cottage industries be enquired into, after taking into account th lines indicated by us. We venture to say that unless the more fundamental aspects of the problem are re-investigated in the light of an analysis analogous to that which we have attempted in this Report in respect of agricultural credit, there is some danger of the more superficial, more orthodox and more conservative solutions tending to be adopted and its being found eventually that no real impression has been made on the problem. Such an enquiry, of course, cannot confine itself to the aspect of credit alone, but will have to cover the other important economic aspects intimately connected with it, as also the sociological and other features involved.

State partnership in co-operative industrial enterprises

14. We have already stressed the importance of the differences between cottage industries on the one side and agriculture on the other in regard to arrangements for marketing and for procurement of raw material. Here again, the most needed line of development might turn out to be that of establishment of State-partnered co-operative institutions covering each of the more important aspects of the rural economic activity connected with the particular industry. It seems to us significant that a few developments, however sporadic, are in fact taking place on these lines. Thus, a co-operative spinning mill has, with active State help, been established at Guntakal in the Andhra State. The point to investigate would be whether more institutions of this, or even a more comprehensive, type cannot be organized on a co-operative basis in order to take up all the important economic stages involved such as the production of yarn, the purchase of yarn, the making of cloth and finally the sale of cloth. Other cottage industries too will no doubt present similar problems and the solution, as we have already indicated, might be to organize them on the basis of State partnership into strong co-operative institutions of real economic significance to the village handicraftsman. Such partnership, as we have stated, involves not only financial participation by the State, but also the fullest assistance from it by way of administrative help, supervisory guidance, and, above all, the making available of the services of trained, competent and responsive technical staff.

X. THE LARGER CONTEXT

CHAPTER 45

APPROACHES TO THE LARGER PROBLEM: CONSTITUTIONAL AND OTHER OBJECTIVES

Directive principles of the Constitution

IN the foregoing chapters we have viewed rural credit as much more than a technical problem of restricted significance. If our analysis and proposals have validity in the context of the wider interpretation we have put on the problem, they must also fit into the even larger context of the total task before the country and be equally valid in relation to the main approaches to that task. The principal objectives of such a task may be derived from the Constitution which the nation has adopted for itself. Further, the Constitution defines and delimits the means to be adopted in the attainment of the objectives. The ends and means thus derived have further to be considered in the light of existing factors, of which one of the most important is the stage of socio-economic development as it today obtains in the country. Some of the more important aspects of the larger problem, in the light of the provisions of the Constitution and of other relevant considerations, form the subject of this chapter.

The definition of both ends and means is implicit in the solemn resolution of the people of India which appears in the Preamble to the Constitution; it concerns the securing to all the citizens of the country "JUSTICE, social, economic and political; LIBERTY of thought, expression, belief, faith and worship; EQUALITY of status and of opportunity"; and the promotion among them all of "FRATERNITY assuring the dignity of the individual and the unity of the Nation". Among the more important objectives of State policy or Directive Principles of the Constitution, the following are relevant:

(1) To secure that the citizens, men and women equally, have the right to an adequate means of livelihood; that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. (Article 39.)

(2) To make, within the limits of the State's economic capacity and development, effective provision for securing the right to work. (Article 41.)

(3) To endeavour (i) to secure, by suitable legislation or economic organization or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities, and (ii) in particular, to promote cottage industries on an individual or co-operative basis in rural areas. (Article 43.)

(4) To promote, with special care, the economic interests of the weaker sections of the people, and, in particular, of the Scheduled Castes and the Scheduled Tribes,

and to protect all these from social injustice and all forms of exploitation. (Article 46.)

(5) To raise the level of nutrition and the standard of living of the people. (Article 47.)

(6) To endeavour to organize agriculture and animal husbandry on modern and scientific lines. (Article 48.)

An economic plan for the country has to be the concrete expression of the State's determination to raise the standard of living of the people. It has to aim at increasing the national wealth, but in a manner which conforms to those other directives of the Constitution—such as prevention of concentration of wealth and the promotion of its equitable distribution—which are relevant to the determination and the effort. To the extent that, in relation to these objectives, planning hitherto has proved defective in method, approach or implementation, it may be presumed that rectification will be sought to be made in future phases of planning. The second Five Year Plan is about to be formulated.

Welfare of the weaker classes

2. One of the foremost of these objectives is the welfare of the weaker sections. The Survey throws light on the conditions in which one of the most important of these sections—viz., the bulk of the cultivating class only the bigger elements excluded—has its socio-economic being, that is to say, how, at many points, production, storage, transport, marketing, etc., are hampered or frustrated, partly by conditions within the village, but largely by factors outside it; and partly by causes avoidable by the cultivator, but largely by those which only the State can help to remove by some form of positive intervention for the benefit of this class and for its protection against the opposition of more powerful interests. We have elsewhere briefly alluded to the similarly disadvantaged position of the other rural producer of significance, namely the village handicraftsman; but along with him has also to be considered the small-scale industrial worker in urban areas whose disabilities arise from an economic and financial set-up, dominated by relatively strong private interests, which in this sector is common to both rural and urban areas. Apart from the cultivator and handicraftsman, the other disadvantaged person in the village, speaking in terms of important rural groups, may be said to be the agricultural labourer.

Rural India, if only in the purely statistical context we have elaborated, must obviously be the major concern of any plan for the increased welfare of the country; but obviously the plan cannot be confined to it alone. In the urban sector, we have noticed the small-scale handicraftsman; the other relatively weak sections of the people who reside in towns and cities are the industrial labourer and the lower middle class. In addition, there are the small operators in industry and transport both in urban and rural areas. These perhaps have to be regarded as the 'priority groups' for policy; the increase of their welfare may be said to be one of the main purposes which must inform any economic plan which subserves the directives of the Constitution.

The medium and small cultivator, the agricultural labourer, the village handicraftsman, the small-scale industrial worker, the industrial labourer, the small operator in industry and transport and the lower middle class—all these share three significant characteristics which justify a prior claim on the attention of a democratic and planning State: they are numerically large, economically important and socially disadvantaged. To these must be added, as another special concern of the State, the backward classes and tribes whose

degree of disability, both social and economic, is so great that the Constitution enjoins it on the State to pay them special attention. In all or most of these cases, neither legislation nor mere administrative and educational efforts, however extended, will by themselves help to solve a problem of welfare which essentially arises from grave disadvantages which are rooted in past development and have become part of the socio-economic structure of the country. If this statement is correct, then it has to be assumed that the future Plan will embody measures for the diminution and eventual removal of these disadvantages; it may further be assumed that such measures, since they will otherwise fail of their purpose, will be concerted, nation-wide, State-sponsored and to the extent necessary, State-financed. Of a plan which is based on such an approach to this important aspect of the total problem and which embodies such measures, we submit that the proposals made in this Report in the more restricted context largely of the medium and small cultivator and partly and incidentally of the handicraftsman, rural and urban, will be found to constitute a logical, necessary and integral part.

Co-operative Commonwealth

3. This proposition may be put in a different form with special reference to the rural population with which we are concerned in this Report. India has set before itself the ideal of a Co-operative Commonwealth. There can be no commonwealth without wealth for the common man. The common man of India today, as well as of tomorrow and of the day after, belongs to rural India. Predominantly he resides in rural India. Even where a lop-sided economy has in appreciable number drawn him to the big cities and enlisted him in the ranks of industrial labour, his heart and his interests continue to be in rural India. The only plan that can restore vitality to the rural economy and, on that vitality, build up the future prosperity of the common man is one which, as the first condition, imparts strength to both agricultural and rural industry. Only then, and in that process, will conditions have been brought about for the well-being of the common man, and, therefore, for the realization of a commonwealth. The process should, and with wisdom and determination can, be that of Co-operation: Co-operation, not merely in the narrower technical sense in which it has completed fifty years of existence in this country, but in the much broader conception of it as the purposive union of all the forces which work for the common good and, in particular, the Co-operation which joins together in a common purpose the united strength of the Indian village with the united strength of the Indian State. We have made clear at various places in this Report our opinion that Co-operation in its restricted sense has on the whole been weak, and in the still more restricted form of co-operative credit has virtually failed in this country; we have also stated, with reasons, our finding that much of the ineffectiveness is directly attributable to the conditions in which it has its being and to the powerful forces consciously or unconsciously arrayed against it. It is perhaps not surprising in the circumstances that the idea of Co-operation itself has, in practice, been relegated to the position of a sentimental topic for talk instead of being accorded its rightful place as a fundamental creed of action, as a dynamic instrument of change, the opposite, on the one hand of regimentation, and on the other of drift and stagnation. It is only when Co-operation is interpreted in this wider and more positive sense, and State effort is conjoined to the fullest extent necessary with co-operative endeavour, that Co-operation will be a potent force in the country's economic development. Our recommendations pertain to a small part of this much wider endeavour. It is nevertheless in this spirit that they are offered.

4. We have distinguished between co-operative technique in the narrower sense and the co-operative way in its wider connotation. The same distinction may also be expressed as that between the co-operative ideology as it has evolved in conditions of relatively static economic policy and the co-operative-cum-planning ideology which would appear to be the next stage called for in its evolution in this country. The co-operative ideology as it has developed has relation to the common economic needs of small local groups or of federations of those groups; the co-operative-cum-planning ideology, of the emergence of which, we believe, there are unmistakable signs, has relation to the much wider national sphere and the larger socio-economic needs in which the smaller are included. Just as in the relatively restricted context of co-operative credit the real problem in this country is not one of simple and superficial reorganization, but rather of the creation of those conditions which will enable the reorganized credit structure to function effectively, so in the wider national sphere, the task to which the co-operative-cum-planning ideology has to be applied is, in the first instance, that of rectifying a socio-economic set-up in which neither Co-operation nor planning can now function effectively. This dynamic task also happens to be, in the light of the Constitution, a fundamental duty of the State and, in the light of co-operative ideals, an obvious duty of co-operators. Once it is granted that the way of Co-operation, as distinguished from the way of conflict between classes, has been chosen as the means of attaining the desired end, it becomes clear that, in the wider as in the narrower sphere, no amount of unaided co-operative effort in the orthodox sense will have the slightest prospect of achieving a solution. The State has to step in and participate in the common effort. The context has only to be stated for such participation to be seen to be inevitable. It arises from a combination of two elements, one of fact and the other of purpose: (1) an impoverished and undeveloped economy with a large social base (the whole of rural India, for one thing) which is markedly, even rigidly, unequal in the distribution of wealth and status and (2) a programme for large-scale increase in production coupled with a large-scale decrease in inequality. Our approach to the problem of development of co-operative credit, of which State partnership is one of the basic concepts, may accordingly be claimed to be a part of this wider approach to the national problem of egalitarian socio-economic development.

Co-operation and planning

5. It is not only the institutions of the State and of Co-operation that have to work conjointly if such an approach is to be successful. The more important institutions and the more powerful individuals in the sector of private economy will either have to participate in the pursuit of the common objective or be induced to subserve that end by all constitutional means available. An economy which seeks planned development may be 'mixed' in composition; it cannot afford to be heterogeneous in purpose. The profit motive may be given its due place, but not the attitude which may be expressed in the words: "You make the plans and we make the profits." For, unfortunately, it soon happens, in the absence of conformity of purpose, that the plans interfere with the profits and the profits interfere with the plans, so that both the parties interested—the Government and the private entrepreneur—begin to protest. What is, therefore, required is the recognition of the fact that it will be much more sensible for the two to come together in a spirit of reasonableness and agree in common to the limitations on both, with perhaps an understanding that, where there is a doubt, the benefit of it

Private enterprise and planning

will be given to the plans. In regard to some of the more powerful private institutions which happen to be of key importance in the promotion of the programme of development—an instance we have considered in relation to credit is the State-associated part of the commercial banking structure—much more will be needed than mere conformity with purpose; in such cases, the minimum requirement would seem to be State partnership. This principle is being increasingly recognized in respect of new institutions such as, for example, the Industrial Finance Corporation and the state financial corporations.

State partnership

6. In connexion with the concept of State partnership in such credit institutions, whether co-operative or commercial, we would further emphasize the need for non-interference by Government in the day-to-day working of the institutions. It is equally important that participation by the State should not imply any interference with sound banking practices. A development programme, i.e., a programme for the extension of wealth and welfare, may—and often in parts does—fail without necessarily setting the clock back on the progress of the effort as a whole. Losses will be written off and lessons presumably learnt. A credit reorganization programme, in effect a programme for the extension of banking, cannot afford to fail, even in part, without serious repercussions on the whole. If a development project fails, a step forward is no doubt lost, but if a banking institution fails, instead of a step forward, there are two or three steps backward.

Rural-minded development

7. We have elsewhere observed that, in the conditions of this country, the problem of rural credit is in reality one of *rural-minded* credit, itself a part of rural-minded development. In the enlarged context, what is needed may be said to be no less than a revolution of psychology: one which amounts to the rural orientation of all the forces that count in the country's governance and in the ordering of its economy. Not only Government, nor Government and Co-operation, but Government, Co-operation and the more powerful institutions of finance and commerce must be brought together in a common purpose for the creation of conditions in which betterment is possible for the weaker sections of a population which in great measure belongs to the villages of the country. The need for sympathetic, purposive and uninhibited contact between those who wield governmental and financial power on the one hand and the vast number, on the other, who are virtually cut off from the purview of the administratively powerful and the financially strong was at no time so much a precondition of national prosperity as now, in view of the terms in which that prosperity has begun to be conceived after the nation has become independent.

Conflicts and loyalties

8. To the socio-economic problem which today confronts the country, the approach has necessarily to be constructive and constitutional; and if only for this reason—there are others such as, for example, are pertinent to the Indian tradition—the approach of violence and class conflict and of 'revolution' in terms of these two, is of course *a priori* excluded from consideration, but the gigantic constructive effort which this imposes on the State as well as the people and their institutions is the reverse of inaction, *laissez-faire* and lack of concerted purpose. All the more is it necessary, in such a context, to devise positive institutional modes of approach which, among other goals, lead to the resolution of conflict and mitigation of caste and class disparity, and the promotion of new factors of unity across the older

divisions. In the village itself, nothing is so important in this context as to build up a new loyalty of production—of common economic effort in the widest sense—across the loyalties of caste and the disparities of riches, influence and economic privilege. If the cultivators of the village, medium and small included, owned, if need be along with the State, the rice mill to which the harvested paddy was taken, if they converted their sugar-cane into sugar in a factory which was co-operatively organized for them, if they were effectively served with both credit and marketing services by a rural co-operative society working in co-ordination with a co-operative marketing society at the erstwhile *mandi* and if in gradual process they combined to consolidate their holdings, or to organize a co-operative farm which reduced their expenses and increased their yield—in all these ways would be brought about a new sense of participating in common effort for the common benefit together with a new feeling of fellowship for those who shared the economic function, but not necessarily the caste, in common with themselves. In this new context, the association of the producer would not merely be with other producers, big or large, medium or small, but also with the State through their local representatives, i.e., the officials serving in the department or deputed to the society with whose guidance and alliance, together with the assistance of the finances made available by Government, the conditions and disparities of the older order could be made gradually to disappear. Only out of such association, socially and economically beneficent, with one another and with the State, would be born that enthusiasm for development which is recognized to be absent today in most villages in India despite large-scale efforts on the part of the Administration to improve the lot of the villager. This lack of enthusiasm may be illustrated from recent official experience. "In fact", say the Grow More Food Enquiry Committee, with reference to that campaign, "the movement did not arouse nation-wide enthusiasm and did not become a mass movement for raising the level of village life."[1] "Measures of reform", records the *Progress of the Plan* "have so far been enforced mainly through the revenue agency, but as the reforms take on a more radical character, it becomes more and more important that the people should be associated as fully as possible in their implementation. A new social and economic order cannot be built up without popular enthusiasm and the assistance of local leadership and initiative."[2] The recognition of the planning authorities that, for the next phase of the Plan, the design of development should be 'from the village upwards' is itself evidence of the need to enlist the active interest of the villager in those measures for his economic benefit which today have failed to rouse him to whole-hearted participation. This want of enthusiasm is a measure not of the smallness of governmental effort but of the vastness of the socio-economic disparity which the villager senses to be the main fact which conditions his life and which the policies and programmes of Government are seen by him to have left entirely unaffected. If, as may be assumed, in the larger context of the other disadvantaged groups in town and village, the next Five Year Plan includes various programmes of economic amelioration, the same want of enthusiasm may be foreseen from these groups, if the same lack of effect is perceived by them to be inherent in the well-meaning and even costly efforts of the State conceived for the benefit of those very groups. If, then, an approach is embodied in the next Plan, which first and foremost seeks to mitigate these disabilities by institutional means such as we have suggested in the form of State-partnered co-operatives for the rural producer, our recommendations in the narrower context may be said to fit into a wider approach of this kind.

[1] *Report of the Grow More Food Enquiry Committee*, 1952, p. 42.

[2] *Progress of the Plan*, January, 1954, p. 128.

9. An extremely important aspect of such an approach, in so far as the cultivator is concerned, is obviously the creation of an organization within the village which can be entrusted with the programme of production and other economic activities designed for the village as part of the bigger programme in the agricultural sector of the Plan. The search for such an organization may be said to be one of the main preoccupations of the Planning Commission. The position reached may be illustrated by the following extracts. These paragraphs appear in the People's Edition of the *First Five Year Plan* (1953):

Planning and the village

"It is greatly to be desired that in the agricultural part of the Plan, the village as a whole should be actively associated in fixing targets and working for their achievement. In recent years the State Governments have shown a welcome earnestness in establishing *panchayats* as civic bodies charged with general responsibility for the collective welfare of the village community. Many activities, such as framing programmes for production, obtaining and managing governmental grants for building roads, tanks, etc., introducing improvements in agricultural methods, organizing voluntary labour for community works and assisting in the implementation of legislation for economic and social reform, will fall within the purview of the *panchayat*.

"On the other hand, for the working of individual programmes of development, where the specific responsibility and liability of a member have to be ensured, a more binding form of association is necessary. Specific and practical tasks of reclaiming land, providing resources for better cultivation and for marketing the village produce are best performed through co-operatives. It is, however, very necessary that co-operative agencies in the village should have the closest possible relationship with the *panchayat*. Though in the discharge of their functions the two bodies have specific fields in which to operate, by having mutual representation and by common *ad hoc* committees for certain matters, it will be possible to build up a structure of democratic management through both the organizations."[1]

'Village production councils' were the device thought of at an earlier stage as mentioned in the following quotation from the *Report of the Grow More Food Enquiry Committee*, 1952:

"There are also village institutions that can be set up where they do not exist. *Panchayats* can be established under laws in force in States. And for every village or group of villages, according to conditions, there should be a multi-purpose co-operative society for providing credit and supplies and giving other assistance needed by farmers including marketing. Close working relations should also be established with schools which can become useful centres of social education. On the question whether village *panchayats* or management boards of multi-purpose societies should be recognized as agents for implementation of development plans, opinion is divided. Some States favour the former and some the latter There is also the Planning Commission's suggestion for village production councils. Each area should decide this on its own special needs and conditions. But it is worth emphasizing again that no solution can be found to the problem of rural betterment unless local co-operation is secured to the maximum possible extent and the support of the best leadership is enlisted."[2]

[1] Pp. 80-1.
[2] P. 56.

The *Progress of the Plan* (January, 1954) contains the following passages which seem to indicate that village *panchayats* where possible, and *ad hoc* committees otherwise, are now favoured as instruments of development within the village:

> "In the planning and implementation of the programme in the Community Projects and National Extension Areas the maximum use is being made of local popular organizations like *Panchayats* and Union Boards. Wherever *Panchayats* or Union Boards, organized along traditional lines, are effective, they are always utilized. In some areas, success has been achieved by entrusting developmental activities to *ad hoc* non-statutory bodies. These organizations have various names. In Madhya Pradesh they are called Gram Vikash Mandals; in Orissa, Gram Mangal Samities; in Madras, Gram Seva Sanghams, and in West Bengal, Palli Unnayan Samities. Participation of the people in developmental activities organized by these bodies is helping in the development of village leadership"[1]

> "Village *panchayats* have, thus, a vital role to play in the sphere of land reform and it is urgently necessary to establish a network of *panchayats* all over the country-side."[2]

The problem itself was originally thus stated in the *First Five Year Plan* (larger edition) in a passage in which the co-operative form of association, as a target if not an actuality, was considered to be the most desirable:

> "According to their needs and experience, village communities will discover the arrangements which serve them best. There has to be a great deal of trial and experiment before patterns of organization which will best promote the interests of the rural population can be evolved. Nevertheless, it is important to work towards a concept of co-operative village management, so that the village may become a vital, progressive and largely self-governing base of the structure of national planning and the existing social and economic disparities resulting from property, caste and status may be obliterated."[3]

We have reproduced these extracts to illustrate the ineffectiveness of the search hitherto conducted for a body within the village which can assume responsibility for the execution of that part of the village plan which is concerned with agricultural production and development. If the analysis presented in this Report has some validity, the opinion may be hazarded that in most villages neither the *panchayat* nor an *ad hoc* committee would be an appropriate organization for being entrusted with this part of the task. Both these are likely to represent precisely those elements in the village which, by and large, operate against the interests of the middle and small cultivator. Here again, the more realistic approach seems to us to be to promote in the first instance those conditions which are necessary before such an organization can function successfully in the village in the context of better farm production and better farm business. For fulfilling this prior requirement, the effort on the part of the State, in the circumstances we have set out in detail, has to be a deliberate, concerted and nation-wide economic endeavour in combination, on a co-operative basis, with the weaker elements in the agricultural population itself. By and large, it is only State participation of this magnitude and direction that would constitute the needed

[1] Pp. 31-2.
[2] P. 128.
[3] P. 197.

approach. Into such an approach would then be fitted State activities such as National Extension and Community Project Development which, however important, cannot by themselves create conditions within the village which can be relied upon to retain their momentum after aid and supervision are withdrawn or reduced. The main task as recognized by the Plan is the generation within the village itself of forces which through their organic relation with village life and economy will continue to operate for the development and prosperity of the village. The creation of such forces by means which are not too costly in personnel and finance, which in other words can be adopted on a country-wide scale within a reasonable period, may be said to be the main problem of planning in relation to the important rural sector of the Plan. The recommendations in this Report constitute one part of a co-ordinated approach which, with effort and determination, may be expected to lead towards a solution of this problem.

CHAPTER 46

ASPECTS OF THE LARGER PROBLEM PLANNING AND ADMINISTRATION

Future planning

THE programme of development outlined in this Report—the development of co-operative credit, of co-operative marketing, processing and other economic activity, and of rural banking in order to facilitate the other two types of development—is concerned with the two main classes of rural producer: with the cultivator mainly, and with the handicraftsman incidentally. In the context of future planning, it may be assumed that, for the first, there will be an even bigger programme of agricultural production; and for the second, a large-scale programme for the development of cottage industries. For both, it may be further assumed that the next phase of the programme will be governed by the announced concept of planning upwards from the village. It is of the essence of such a concept that the new Plan will be no mere projection into the next five years of the many unfinished projects or continuing activities of the present Plan, but something else besides; for, such a projection of the present Plan, followed by its cutting up into local sections, would not constitute each such section a 'plan upwards' from the particular locality, whether that locality be a village or a district. Mention has been made in the last chapter of the search for a suitable body inside the village which can take up and pursue a programme of agricultural development in which all the cultivators of the village can participate. This search for an appropriate village organization is symbolical of the wider effort to convert the present more or less super-imposed programme of economic improvement into something more in the nature of an organic development from within the village itself. From what point or nucleus shall this body of villagers be built up: from non-existent co-operative society, notional production council, factious *panchayat* or, ignoring all these, from just an *ad hoc* committee in the village? The problem has not been solved because it is largely insoluble in present conditions. The search, as already indicated, is for something which can only emerge if the conditions requisite for it are first created by a State-partnered programme which, among other things, includes important aspects of agricultural economic activity besides credit facilities for that activity; it will not materialize as the result of any mere programme for extension, supervision and administration. In the sphere of rural industry, the new Plan will come up, not only against a combination of all these obstacles, but in addition the fundamental difficulty of promoting and sustaining small units of production which, in respect of most of the types of goods they produce, will be confronted with the competition of the much larger units of urban industry which are both better organized and, in their technical aspects, more advanced and progressive. It may be assumed that this effort will nevertheless be made and the needed lines of development formulated in the programme for the second five year period. About the supreme importance of such an effort there can be no doubt, for it will be directed towards the fulfilment of a vital requirement of both the unemployed and the under-employed in the rural area, whether cultivator, handicraftsman or labourer.

Indeed, the accord of priority to rural industry over most forms of urban industry is already implicit in both Plan and Constitution. From the basic economic objective of increase of wealth, in conjunction with the basic egalitarian objective of reduction of disparity, it follows that, as between different forms of production of new wealth, those should in particular be encouraged and established which, in the very process or situation or production, tend to promote the distribution of the added wealth in the more needed directions, asdistinguished from its further concentration at the relatively more saturated points. Such an approach, already implicit in the concepts and precepts of planning, if not in its practical expression, may be expected to be made explicit in the second Five Year Plan and substantially embodied in the new programmes it will lay down for the industrial, including agro-industrial, sector of rural production. We have throughout kept this important and inevitable, though still largely potential, development in view in designing the State-partnered credit structure, co-operative as well as commercial, of our recommendations. We have also, it may be recalled, as complementary to such a structure in the short-term sphere of credit, suggested the co-ordination of policies in respect of bodies such as the All-India Handloom Board, the All-India Khadi and Village Industries Board, the state financial corporations, etc., for the provision of the facilities needed in the context of the block and working capital requirements of State-sponsored, and possibly State-partnered, rural industries.

Administration.

2. Besides Planning, an important aspect of the larger context with which we are concerned, by reason of the bearing which it has on our recommendations, is Administration. We have elsewhere made various suggestions which come under this head: organization of training, strengthening of co-operative departments, formation of new cadres, etc. From the standpoint of a programme such as is here envisaged, the reorganization required in respect of the co-operative departments alone will be considerable. But the administrative problem in the larger context, in so far as it has relevance to co-ordinated programmes of national development of which this may be regarded as a part, is much wider than reorganization of co-operative departments or the training of the personnel of those and other departments and institutions. The particular items to which we propose to confine our brief remarks in this chapter are: (1) the selection and training of the personnel concerned with such programmes; (2) the effectiveness of implementation as ensured by supervision; and (3) the wider question of reorganization at different levels in the context of development.

Sympathy, understanding and responsiveness

3. As we have already emphasized, not only the training but also the recruitment of the personnel will have to be looked at from the point of view of the new functions. Thus, a capacity for sympathy, understanding and responsiveness, in the sense in which we have used those terms in relation to the rural environment and to the needs of different rural classes, should be among the qualities to which importance should be attached in recruiting new candidates. For, unless that capacity is initially present and is fostered and encouraged at all stages, the warning would be relevant that "to exchange the landlord for the tax-gatherer, the merchant for the agent of State monopolies and the moneylender for the state bank official, may prove to be not progress but enslavement".[1]

[1] From an address by Professor J. B. Condliffe, University of California, *Proceedings of the International Conference on Agricultural and Co-operative Credit,* 1952, Vol. I, p. 589.

To the extent that official attitudes are rigid, unresponsive and unimaginative, they will stultify progress in every one of the directions envisaged. In particular, they will be fatal to the objective of evolving State-partnered co-operative institutions, especially at the rural level, into fully co-operative institutions at the earliest possible stage. Moreover, it is here that the administrator and the official will be called upon to discharge the extremely difficult task of helping others to help themselves: in other words, while doing important work as an officer of Government, yet so to perform it as to make himself dispensable within the shortest possible time.

Honesty and efficiency

4. Besides sympathy and informed responsiveness, two important requirements are obviously honesty and efficiency. On the latter it is needless to dwell. There is evident in India today a sad lack of honesty in different degrees and at different levels of administration and governance. In a programme for the positive economic benefit of the weaker, in conditions in which certain sections of the rich and the powerful will ever be interested in the failure of the programme—both broadly and in the detail of its effect on themselves in so far as it is their position of vantage and their power of competition that will be sought to be weakened—it is more than ordinarily necessary that the strictest honesty should be enforced and dishonesty punished. The fact has to be faced that the sociological soil of India today is more favourable to corruption and oppression than to co-operation and planning. Corruption has its roots not only in men's characters but also, and from the point of view of social remedy more relevantly and more deeply, in men's institutions. In India at present, the largest single factor institutionally responsible for corruption may be said to be the lack of egalitarianism where this lack is most basically present, viz., in the Indian village. For, corruption is the exchange of some form of favour against the public interest for some form of satisfaction of private interest. The latter is offered by the man who wants the favour. But favour against the public interest implies that someone else is disadvantaged, viz., the man who cannot offer the satisfaction. This is the weak man. The greater the degree and extent of inequality between strong and weak, rich and poor, the greater the reason and the larger the occasion to seek favours. Perfect egalitarianism, if that were possible, might almost be said to be a perfect safeguard against corruption. These considerations make it all the more important to demand the highest standards of honesty not only of those concerned with the implementation of programmes of development, but also of those in public life, administrative and political, generally.

Supervision

5. On the need for ensuring by efficient supervision that there has been actual implementation, we would observe that there are two big illusions in India which too often take away people's thoughts, often involuntarily, from the realities of action and effect. These are the legislative and administrative illusions. Legislation says, 'This shall be done', and after such interval as may be dictated by propriety, expediency or sometimes sheer inefficiency, Administration answers back, 'That has been done'. While Legislation and Administration thus proceed from one exchange to another, the old realities often continue their former sway. In the context of development, the failure to translate into administrative reality what has been laid down as governmental policy would vitiate all programmes except on paper. The utmost importance should therefore be attached and the strictest standards of efficiency enforced in the execution of policy, and in the supervision of execution, at all levels.

6. Many schemes and many suggestions for the reorganization of the administrative set-up in order that the needs of independent India may be more effectively served are before the Government of the day. As in the reform of co-operative administration, so in that of general administration, especially in relation to the function of development, the main focus should be the village. It is necessary to emphasize this because, despite the welcome tendency to design certain important new measures of administration—such as National Extension—with the village in mind and round the village as centre, this requirement, which is basic to India's further development at this stage, is often lost sight of in the more comprehensive schemes of reorganization. One sometimes comes across individual 'co-operators' who appear to think that co-operative reorganization and development are best fostered by ensuring for its premier non-official bodies a continuity of political contacts at Delhi and a variety of international contacts at Geneva. But much greater than its need to go to the capitals of the world for guidance is the need of Indian Co-operation to make, at long last, an effort to go to the Indian village for study and reflection and for genuine attempts to develop and reorganize. So too, for Indian administration as a whole. a vast field of research and action remains to be covered in the villages of the country. On lessons derived from rural India, rather than on those learnt from the unrelated experience of foreign, industrially more advanced and—in the socio-economic and political aspects—radically different countries. will have to be based both the assessment of administrative needs and the modification of structure to meet those needs. In the administrative structure itself are present two interrelated but not always co-ordinated aspects: the new and growing aspect of development and the old and 'basic' aspect of normal administration. The main task before the country being the bringing about of economic development in terms of simultaneous progress towards social egalitarianism, the prior function of the administrative structure as a whole—including the basic—may be said to be the promotion of conditions in which such development and progress will be possible. The indigenous situation then, by which must be dictated all plans of administrative reorganization, is wholly dissimilar to that, for example, of countries whose administration is geared to the free play of political and economic forces.

Rural needs and administrative reforms

7. Considering the problem of administrative reform in the extended light of the analysis and proposals contained in this Report, the most important needs may be said to be these. There is first of all the need for Government to make its administrative role in the village more and more that of a beneficent authority and less and less that of the tax-gatherer which, for the most part, it has been till recently. Secondly, again in the village, there is the need for Government to assume the function of real partnership in economic development—especially of the middle and lower groups—and not merely that of administration on the one hand or of advice and 'extension' on the other. Thirdly, there is the need not only to simplify development administration at the village end, as in National Extension Service, but also to achieve effective co-ordination between (i) the different administrative agencies of development, including that of Local Self-Government and (ii) those agencies and the machinery of basic administration. A large field remains to be explored in connexion with the more effective association of the local bodies of administration—*panchayats*, local boards, etc.—with local projects of planned development, e.g., those relating to minor irrigation, no less than roads, public health or

Rural needs

primary education. As for the other and much needed co-ordination between the agencies of development and of basic administration, the proper line of reorganization would seem to be that the Collector himself should become the Chief Development Officer of the district and so too, in their respective jurisdictions, the sub-divisional revenue officials; whereas, lower down, the subordinate revenue officials should have a more restricted and specialized role than at present, the 'general' functions they now exercise being passed on progressively to the appropriate developmental staff. There will then be a transformation of the old order rather than the introduction into it of miscellaneous and inchoate sub-strata as at present or the replacement of it altogether by a wholly untried new order. At a higher level, in the secretariats of State Governments, a tentative line of reorganization, which suggests itself (for the bigger States at any rate), is that the Chief Secretary should be assisted by two additional Secretaries (or other top-ranking secretariat officials), one in charge of basic administration in its more general aspects (such as organization and methods) and the other in charge of all items of development which are of importance to the rural area and of other items intimately connected therewith, the main subjects thus co-ordinated at the very highest level in the secretariat being (1) Agriculture, (2) Co-operation, (3) Cottage Industries and (4) Industries. The main requirements are that, for purposes of formulation and administration of policy at the State secretariat level, Co-operation should be treated as an organic part of 'rural development' in all its main aspects; that administration of that development as a whole should be intimately co-ordinated with basic administration; and that the two together should be placed at the highest point of responsibility and co-ordination in the secretariat. An administrative arrangement which effectively provides for these requirements seems essential for the effective pursuit of a programme of rural development which includes, among other things, schemes of the nature and order we have recommended for the fostering of co-operative credit and co-operative economic activity in the rural areas.

CHAPTER 47

CONCLUSION

THERE are two main facts about India: religion and poverty. It would be as foolish to ignore the one as the other. No endeavour that is great is likely to succeed in India unless the springs of action are derived from the living fount of religious feeling. No aim of the State in India can be so great as the abolition of poverty. In the pursuit of this aim, everything will fall short of success which gives only lip recognition to India's spiritual traditions and lip sympathy to India's poverty. There are signs today that not only the political consciousness, but the much deeper and more abiding spiritual awareness, of the country has been stirred to action by the distress and the inequality which have resided so long in its thousands of villages. Of extreme importance to India is the question whether all forces of enlightenment, spiritual, religious and social, no less than political, administrative and technical, will come together in a common pursuit, both informed and determined, of the economic good of the country.

Any considered thesis concerning rural credit in India cannot help being in essence, though not in detailed exposition, a part of a much larger thesis concerning the economic good of India. This is inevitable because rural credit, seemingly both narrow and technical as a subject of enquiry, is in reality neither of these. In extent, it is as wide as rural society, which means practically as wide as the Indian nation. In content, it embraces all economic activities and purposes as they affect rural society, for credit is only a layer of such activities and has organic purpose only in so far as those activities have an organic purpose. Assuming this larger purpose to have the twofold aspect of achieving wealth and securing its equitable distribution, a programme of rural credit becomes inseparable, in its underlying concepts, not only from the end which is economic good, but from the means to be employed in the attainment of the end. Those means, to be significant for India, have to conform to the values of the Indian tradition. One feature of that tradition may be recalled. At widely different times and in widely different parts of the country there have arisen religious leaders in India whose aim was spiritual good and whose endeavour it was to place within the reach of all the means of achieving such good. Each such effort was non-violently conceived and non-violently conducted; it had the appeal and motive force of a mission; and, not infrequently, its organization bore signs of careful forethought and attention. Essentially the same means, employed in the pursuit of economic good, have perhaps this difference, that they hold greater promise of attaining the object postulated. For one thing, there is nothing yet in human history to disprove—just as there is nothing in it yet to demonstrate—that economic welfare in its highest sense cannot be achieved, even where it is most lacking, by the planned, deliberate and organized effort of a Government, relentless as to purpose but not ruthless as to means, provided the effort is not only emotionally impelled but is scientifically guided. In this latter aspect, a whole apparatus of technique, knowledge and research, comparatively

recent and painstakingly accumulated, is available to Governments, if only they will make use of it, through the development of the social sciences of economics and sociology and of the science no less than art of public administration. It is irrelevant whether economic good is or is not a lesser objective than spiritual good. The fact remains that economic good is the highest practicable objective so far as Governments are concerned. In India, the process of increasing and more equitably distributing the economic good must, on purely rational grounds, be conceived in terms of rural India. The larger thesis, in which our concrete recommendations can find place only as a part, is that what India most needs today is a comprehensive and determined programme of rural regeneration which has the ethical impulse and emotional momentum of its highest traditions; which has, moreover, the calculated design of a project that is scientifically conceived and scientifically organized; and which, above all, attempts to render to rural India, in the economic realm, those opportunities for growth and fulfilment which, without distinction between man and man, but with especial compassion for the weak and the disadvantaged, more than one religious leader at more than one period of the country's history attempted to render to the masses of India in the realm of the spirit.

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BOMBAY
5 August 1954

SUMMARY OF RECOMMENDATIONS

I. THE INTEGRATED SCHEME OF RURAL CREDIT

(Chapter 31)

Serial No.		Paragraph No.
1	One of the prior objectives of policy (as explained in Chapter 30) has to be the creation of conditions in which co-operative and other institutions will function effectively in the interests of rural production and for the benefit of the rural producer, and not as hitherto be largely stultified by the operation of more powerful private interests; for this, the necessary assistance, in the form of finance, technical personnel, etc., and not merely advice, supervision and administration, has to come from the State; hence State partnership in some of the more strategic institutions, co-operative and other, existing or new, is recommended as an important feature of the reorganization that should take place. Institutional development, with the object mentioned and on the basis of State partnership, should extend to (i) co-operative credit, (ii) co-operative economic activity, especially processing and marketing, (iii) storage and warehousing and (iv) commercial banking as represented by the important sector of State-associated banks. In respect of each of these there should be provision for the supply of trained personnel in needed number and with the requisite outlook. Accordingly, the main lines of reorganization and development recommended as part of the integrated scheme of rural credit are as follows:	1, 2 & 3

(*a*) Financial, administrative and technical strengthening of state co-operative banks at the apex level; similar strengthening at the district level, the reorganization taking the form, according to the conditions in different areas, of either establishment of branches of state co-operative banks or expansion and consolidation of central banks; the maximum possible co-ordination of both these categories with land mortgage banks; the organization of new central and primary land mortgage banks; gradual establishment, at the primary base, of larger-sized primary credit societies; channelling through this structure of not only agricultural credit, but eventually also rural industrial credit; institution of devices (such as a modified form of chit fund) for utilizing the primary credit structure for meeting, to a limited extent, the consumption needs of agricultural labourers, handicraftsmen, etc., besides those of the member cultivators.

(*b*) The progressive organization, on a co-operative basis, of marketing and processing with the needed financial, administrative and technical assistance from the State, and the development of storage and warehousing through State-partnered organizations at the all-India and State levels,

and, at other levels, through co-operative institutions with financial and other assistance from the all-India and State organizations.

(*c*) The progressive organization on a co-operative basis of as large a sector of rural economic activity as possible, e.g., farming, irrigation, transport, milk supply, dairying, livestock-breeding, cottage industries, etc., with financial, administrative and technical assistance from the State.

(*d*) Establishment of a State Bank of India, through the amalgamation of the Imperial Bank and certain State-associated banks; and major State participation in the new and enlarged institution.

(*e*) The organization by the Central Committee for Co-operative Training of a co-ordinated system of training, all-India, regional and State-wise, for personnel of both co-operative departments and co-operative institutions.

2 The State Governments will be directly responsible for fulfilling the programme of co-operative development, whether of credit or of economic activity, in their respective areas. Besides the State Governments and the Planning Commission, the main agencies of reorganization and development are: the Reserve Bank of India; the Ministry of Food and Agriculture of the Government of India and, associated with it, the National Co-operative Development and Warehousing Board, the All-India Warehousing Corporation and the State Warehousing Companies; the State Bank of India; the Central Committee for Co-operative Training and the Co-operative Movement itself. 4

3 The main Funds for the financing of reorganization and development will be: 5

(i) UNDER THE RESERVE BANK

(*a*) The National Agricultural Credit (Long-term Operations) Fund.

(*b*) The National Agricultural Credit (Stabilization) Fund.

(ii) UNDER THE MINISTRY OF FOOD AND AGRICULTURE

The National Agricultural Credit (Relief and Guarantee) Fund.

(iii) UNDER THE NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD

(*a*) The National Co-operative Development Fund.

(*b*) The National Warehousing Development Fund.

(iv) UNDER THE STATE BANK OF INDIA

The Integration and Development Fund.

(v) UNDER EACH STATE GOVERNMENT

(*a*) The State Agricultural Credit (Relief and Guarantee) Fund.

(*b*) The State Co-operative Development Fund.

(vi) UNDER EACH STATE CO-OPERATIVE BANK, CENTRAL CO-OPERATIVE BANK, ETC.

The Agricultural Credit Stabilization Fund.

II. THE RESERVE BANK

(Chapter 33)

4 The Reserve Bank should contribute (i) not less than Rs 5 crores per annum to the National Agricultural Credit (Long-term Operations) Fund and (ii) not less than Rs 1 crore per annum to the National Agricultural Credit (Stabilization) Fund; the position in regard to these contributions should be reviewed at the end of 5 years. In addition, there should be an initial non-recurring contribution of Rs 5 crores to the National Agricultural Credit (Long-term Operations) Fund. The operations of these Funds and the planning and execution (within the Reserve Bank's own sphere) of the programmes and policies for which they are intended to be utilized should remain the responsibility of the Reserve Bank and its Board in their normal functioning, and should not be vested in a separate body, statutory or other. 6

5 Out of the National Agricultural Credit (Long-term Operations) Fund, the Reserve Bank should be enabled to make long-term loans to State Governments for the purpose of their subscribing, directly or indirectly, to the share capital of co-operative credit institutions (whether these are institutions which give short-term and medium-term credit or long-term credit), provided the institution is one mainly designed for giving *rural* credit, either in the sphere of agricultural and ancillary activities or of cottage and small-scale industries. 7

6 The Reserve Bank should continue to make short-term accommodation available through state co-operative banks. As at present, such accommodation should be usually given on the guarantee of the State Governments. The proposed increase in the share capital of state co-operative banks, central co-operative banks, etc., will make possible a considerable increase in the volume of the short-term agricultural credit now supplied by the Reserve Bank; this increase will, in part, be related to, but of course be much larger than, the increase in the share capital itself. The Reserve Bank should also give medium-term loans (of periods of 15 months to 5 years) to state co-operative banks and, through them, to central co-operative banks or societies. The medium-term loans would be given out of the National Agricultural Credit (Long-term Operations) Fund. Certain statutory restrictions which now operate in this respect (overall limit of Rs 5 crores and individual limits related to the owned funds of 8

state co-operative banks) should be removed. The individual limits will be set by the Reserve Bank's appreciation of the financial position of each of the borrowing institutions.

7 The Reserve Bank should be enabled to give long-term accommodation to land mortgage banks (*a*) by way of direct loans and (*b*) by purchase of the whole or part of their 'special development debentures' by drawing upon the National Agricultural Credit (Long-term Operations) Fund. This will be distinct from the purchase of 'marketable' debentures which, in pursuance of the Bank's existing policies, is already part of its ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government. 9

8 The National Agricultural Credit (Stabilization) Fund should be utilized by the Reserve Bank for granting medium-term loans to state co-operative banks etc., in circumstances in which it is satisfied that short-term loans of which repayment to it has become due by such institutions cannot be repaid in due time without serious dislocation to the co-operative credit structure of the State, on account of famine, drought, etc., and consequently that the repayment of such loans, or part of such loans, may justifiably be permitted to be deferred. In such a case, the short-term loans will be technically treated as repaid to the Reserve Bank's Banking Department, but in effect converted into a medium-term loan from the Reserve Bank's National Agricultural Credit (Stabilization) Fund. The Reserve Bank may make this facility conditional on the state co-operative bank concerned maintaining a similar Agricultural Credit Stabilization Fund, the same applying to central banks and, where feasible, the larger-sized primary societies. The Reserve Bank may also insist that part of the overdue liability should be met from such Stabilization Funds kept within the co-operative credit structure itself. 10

9 Amendment of the law, including, if necessary, amendment of the Constitution, is recommended so as to make it obligatory on all State Governments and not merely, as hitherto, the State Governments of Part A and Part C States, to appoint the Reserve Bank as their sole banker. 11

10 Section 19(2) of the Reserve Bank of India Act should be amended so as to enable the Reserve Bank to hold shares in the State Bank of India. It should also be statutorily provided that it shall not be open to the Reserve Bank to appoint any bank other than the State Bank of India as its agent. There should be a similar obligation on the State Bank to continue to be agent. While there should continue to be provision for the periodical revision of any financial arrangements such as the commission payable on the turnover of Government business, the basic relationship between the Reserve Bank and the State Bank, the latter as agent, should be embodied in the statute as a permanent feature. 12

Serial No.		Chapter 33 Paragraph No.
11	The Department of Banking Development of the Reserve Bank will have an important part to play in matters such as co-ordinating, supervising and, generally, carrying out the programme for the establishment of the State Bank of India and the extension of its branches into the interior, effecting co-ordination in the matter of the arrangements for training personnel of the State Bank of India etc., and between the operations of the State Bank of India and the co-operative credit structure. The Department should be enlarged and strengthened and made a permanent feature of the Bank.	14
12	The Agricultural Credit Department will also have a very important part to play in carrying out the integrated scheme of rural credit. This Department should be expanded and reorganized. As early as recruitment of staff, training, etc., make it possible, branches of the Department should be gradually opened at least at those places where the Reserve Bank itself has branches or offices. One of the important duties of the officers in charge of these branches will be to collaborate with the State Governments in the fulfilment of the Bank's policies. Inspection of co-operative banks etc. (on a voluntary basis), which should be such as to promote these policies, will also be one of the important duties of these officers. The lines on which the inspection is to be conducted should be embodied in manuals and instructions issued by the head office of the Department.	15
13	For advising the Reserve Bank from time to time on various policy matters, there should be two organizations, one wider than the existing Standing Advisory Committee on Agricultural Credit and constituted on a more representative basis, and the other smaller than the existing organization and designed to be specialized and expert rather than representative. The first should be for reviewing policies at not too frequent intervals, and the second for supervising their fulfilment and offering detailed advice at more frequent intervals. For the former purpose, an Advisory Council representative of all or most of the States and including economists, co-operators, etc., should be set up. It should meet once a year, or twice if necessary. This Council might be common to the activities of the Reserve Bank and the Government of India in its Ministry of Food and Agriculture and, associated with it, the National Co-operative Development and Warehousing Board. The smaller body for the Reserve Bank might bear the same name as now in use, viz., the Standing Advisory Committee on Agricultural Credit, but its total strength might be much smaller. It should consist of representatives of the Reserve Bank, the Planning Commission and the Ministry of Food and Agriculture, together with two or three economists and non-official co-operators. The Committee could, for particular meetings, co-opt Registrars or other representatives from different States, whenever necessary. The meetings of this Committee should be held at least once every quarter.	17

Serial No. | Paragraph No.

III. THE STATE BANK OF INDIA[1]

(Chapter 34)

14 A 'State Bank of India' should be established by statutory amalgamation of the Imperial Bank of India and the major State-associated banks (the State Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Jaipur, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore, the Hyderabad State Bank and the Travancore Bank). The Reserve Bank and the Government of India should examine, in this context, the suitability of also amalgamating certain small State-associated banks. For future application, as and when necessary and appropriate, and subject to notification by Government, the same statute should contain provision for similar compulsory amalgamation with the State Bank of India of suitable, relatively small commercial banks whose branches are so situated as to be complementary in point of area of operation to that of the State Bank. 2

15 The earliest possible decision and action, both legislative and administrative, should be taken on the proposed integration. 10

16 The new institution should draw up in collaboration with the Reserve Bank and undertake a much larger programme of branch extension to rural areas. In view of this, among other things, its authorized share capital should be adequately increased. 4

17 Simultaneously with amalgamation and expansion of the share capital, the Government of India and the Reserve Bank should take up shares in the reorganized institution, largely by being allotted new shares and partly by acquisition of the old shares held by State Governments in some of the amalgamating institutions, of an order that will ensure for the Government of India and the Reserve Bank together a voting power of not less than 51 per cent. 6

18 The new shares allotted to the Government of India and the Reserve Bank should be non-transferable; the dividend payable on them should be statutorily limited. This special category of shares should be issued *at par* to Government and the Reserve Bank. 6

19 The Government of India and the Reserve Bank together should nominate the majority of directors on the Central Board of the State Bank of India. The Chairman should be appointed by the Government of India after consultation with the Board. The Managing Director and the Deputy Managing Director should be appointed by the Board with the approval of Government; the removal of either of them should be subject to the same condition. 8

[1] For detailed 'suggestions', which are here omitted, reference is invited to Chapter 34

20 The Local Boards (in the form constituted under the Imperial Bank) should be converted into Local Committees of which the Chairman and a majority of the members should be nominated by the Central Board. New Local Committees should be constituted for some of the areas now served by two or more of the amalgamating banks other than the Imperial Bank. 8

21 An 'Integration and Development Fund' should be instituted within the State Bank of India. To this Fund should be diverted the dividends earned by Government and the Reserve Bank on their shares in the institution. An initial contribution of Rs 50 lakhs in all should be made to the Fund by Government and the Reserve Bank as also subsequent *ad hoc* contributions as and when necessary. The main purpose of the Fund would be to meet, when necessity arises, the net additional cost to the State Bank involved in opening, in pursuance of State policy, such branches as may initially be unremunerative. Other and minor purposes of the Fund would be to meet, in part and for a transitional period, some of the additional items of expenditure incidental to the amalgamation. 12

22 There should be no interference by the State in the day-to-day operations of the State Bank of India. Nor of course should there be any lowering of the standards of sound banking. For its part, the State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit, and *especially marketing and processing*. (It is of course the Reserve Bank primarily which will continue to lend to state co-operative banks and through them to central co-operative banks etc.) Its branch extension should be co-ordinated, and wherever possible positively associated, with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities. Particular attention to this aspect should be given at the sub-divisional level, especially in those States in which the co-operative movement is relatively undeveloped. 14

23 Special arrangements for training should be made for the personnel of the State Bank of India. As part of this training, some knowledge should be imparted of the aims and methods of Co-operation and co-operative banking. Besides, there should, wherever suitable, be arrangements for the positive association of the personnel with the boards of co-operative credit institutions. 16

IV. THE NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD AND ITS AUXILIARIES

(Chapter 35)

24 The National Co-operative Development and Warehousing Board and the All-India Warehousing Corporation should be established by 2

statute. The same statute should provide for the formation of State Warehousing Companies.

A. THE NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD

25 The National Co-operative Development and Warehousing Board should be constituted with the Minister for Food and Agriculture as Chairman, the Secretary of the Ministry of Food and Agriculture as Vice-Chairman and twelve other members, viz., a representative each of the Planning Commission, the Finance Ministry (Department of Economic Affairs), the Railway Board, the Reserve Bank and the State Bank of India; the Consulting Engineer (Road Development) to the Government of India, Ministry of Transport; the Chairman, Forward Markets Commission; one economist; two co-operators; and two other non-officials. 2

26 The Board should have a Standing Committee which should meet fairly often for formulating subsidiary policies, for taking executive and financial decisions and for reviewing and supervising the carrying out of policies and plans. The Standing Committee should consist of the Secretary of the Ministry of Food and Agriculture (Chairman), the representative of the Reserve Bank, and two other members. In order to enable the Secretary of the Ministry of Food and Agriculture to devote adequate attention to the work, he should be given relief from his normal duties by the appointment under him of an Additional Secretary to look to the normal work of the Ministry. 2

27 The more important functions and objects of the National Co-operative Development and Warehousing Board will be to promote the planned development, throughout the country, of the co-operative processing and marketing of agricultural commodities (including commodities ancillary to agriculture or otherwise of importance to the rural economy) and of facilities for the storage and warehousing of such commodities; to promote the planned development, throughout the country, of agricultural production on a co-operative basis and of the co-operative organization of the prerequisites, facilities and processes of agricultural production as well as of non-agricultural production, whether ancillary to agriculture or otherwise of importance to the rural economy and to promote, on a country-wide scale, the distribution to the cultivator, as far as possible on a co-operative basis, of his basic requirements as producer and consumer. 3

28 In pursuance of the above objects, it should give financial aid and accommodation as well as other forms of assistance, to such extent and on such conditions as may be feasible and desirable, to State Governments and through them to co-operative organizations; give general directions to the All-India Warehousing Corporation and to attach conditions to any 3 & 21

loan or subsidy or other assistance given to the All-India Warehousing Corporation and State Warehousing Companies; and administer the National Co-operative Development Fund and the National Warehousing Development Fund and, at its discretion, make appropriations between the two Funds. An important feature of the scheme is the provision for subsidies, wherever needed, by the National Co-operative Development and Warehousing Board to the All-India Warehousing Corporation and the other auxiliaries including the co-operative societies in order that godowns and warehouses may be built and run on business lines.

29 The Board's office, including its Secretary and its administrative, executive, expert and other staff, should be provided by, and be part of, the Ministry of Food and Agriculture. 4

30 For the discharge of such of its functions as relate to co-operative development, the Board should collaborate in an advisory capacity with the State Governments. 5

31 For the discharge of its functions relating to warehousing, the Board should act through the All-India Warehousing Corporation. 5

32 In regard to its function of 'distribution' (e.g., of fertilizers, agricultural implements, kerosene, etc.) the Board will co-ordinate the activities of the All-India Warehousing Corporation and State Warehousing Companies, which will themselves act as agents of the Government of India, State Governments, etc. 5

33 As already stated, there will be two Funds: (*a*) the National Co-operative Development Fund and (*b*) the National Warehousing Development Fund. The Government of India should make an initial non-recurring contribution of Rs 5 crores to the National Warehousing Development Fund. It should also make a recurring contribution of not less than Rs 5 crores every year for the two Funds together; out of this, Rs 3 crores should be allotted to the National Co-operative Development Fund and Rs 2 crores to the National Warehousing Development Fund unless, for any particular year, a different allotment is suggested by the Board which should be consulted before each allotment. The Board, as mentioned before, will be at liberty to make appropriations between the two Funds. These arrangements should be reviewed after five years. Other sources for the Funds will be *ad hoc* grants from the Government of India and foreign assistance. The latter would be particularly appropriate for the warehousing part of the programme. 1 & 6

34 The National Co-operative Development Fund may be utilized for making long-term loans to State Governments to enable them to subscribe to the share capital of co-operative societies when undertaking activities (especially processing and marketing) which fall within the purview of the objects of the Fund and for giving non-recurring or recurring subsidies to 7

State Governments or, through them, to co-operative societies for similar objects. As a rule, subsidies or loans to State Governments should be conditional upon a certain percentage of the total expenditure or outlay being met by the State Government itself. The proportion to be so met should ordinarily be not less than 25 per cent; but there may be different gradations for different State Governments according to their financial strength and resources.

35 The National Warehousing Development Fund may be utilized for subscribing to the share capital of the All-India Warehousing Corporation; making loans to a State Government to enable it to subscribe to the share capital of the State Warehousing Company pertaining to its State; making loans to the All-India Warehousing Corporation and (through it or otherwise) to a State Warehousing Company; making loans to State Governments and through them to co-operative societies; and giving non-recurring or recurring subsidies to the same bodies and through the same channels as mentioned above. 7

36 As a rule, there should be no compulsory acquisition of processing plants etc., but an important exception would have to be made where members of a co-operative society or persons prepared to form themselves into one (the membership, composition, etc., being such as to satisfy criteria prescribed by the Board) offer to subscribe not less than 30 per cent of the share capital. In such an event, and provided the State Government is satisfied that acquisition is in conformity with public interest, it may, after notification, compulsorily acquire the concern. State Governments should also take steps to license all plants, factories and mills (other than at the cottage industry level) which are engaged in the processing of agricultural commodities or in related activities and meanwhile promote, as soon as possible, such legislation as may be necessary for the purpose. 7

B. ALL-INDIA WAREHOUSING CORPORATION

37 The All-India Warehousing Corporation should have an authorized share capital of Rs 20 crores. The issued and paid-up share capital should be Rs 10 crores. 8

38 Not less than 40 per cent of the paid-up share capital (i.e., not less than Rs 4 crores) should be subscribed by the National Co-operative Development and Warehousing Board, out of the initial non-recurring contribution of Rs 5 crores by the Government of India. (The remaining Rs 1 crore will enable it to commence giving loans and subsidies immediately.) As regards the balance of paid-up share capital, (*a*) not less than 10 per cent (of the total paid-up share capital) should be allotted to the State Bank of India, (*b*) not more than 15 per cent to other commercial banks, (*c*) not more than 20 per cent to insurance companies, investment trusts, etc., (*d*) not more than 10 per cent to joint-stock companies dealing in 9

agricultural commodities and (*e*) not more than 5 per cent to organized forward markets such as the East India Cotton Association.

39 A minimum dividend should be guaranteed on the share capital of the Corporation by the Government of India on broadly the same lines as for the Industrial Finance Corporation. Debentures issued by the Corporation should be guaranteed by the Government of India as to both principal and interest. There should also be other appropriate provisions analogous to those pertaining to the Industrial Finance Corporation. 10

40 The members of the Standing Committee of the National Co-operative Development and Warehousing Board should be *ex-officio* members of the Board of the All-India Warehousing Corporation. The Secretary of the Ministry of Food and Agriculture would be the *ex-officio* Chairman of the Board. There should be 7 more members of the Board, 3 from the National Co-operative Development and Warehousing Board, *viz.*, the representatives of the Railway Board and of the State Bank of India and the Consulting Engineer (Road Development) to the Government of India, Ministry of Transport. The remaining 4 would consist of one representative each of (i) the other commercial banks, (ii) insurance companies, (iii) joint-stock companies and forward markets and (iv) a Managing Director who should be appointed by the National Co-operative Development and Warehousing Board in consultation with the Board of the All-India Warehousing Corporation. 11

41 The more important functions of the All-India Warehousing Corporation, subject to the general directions of the National Co-operative Development and Warehousing Board and in conformity with its plans and policies, would be to acquire and build godowns and warehouses at places of all-India importance; run licensed warehouses and train the necessary cadres and staff for this purpose; manage regulated markets at centres to which its activities have extended; subscribe to the share capital of State Warehousing Companies; act as agent of the National Co-operative Development and Warehousing Board; take up the work of 'distribution' as agent of the Government of India or of the State Governments; and issue debentures. 12

42 Ordinarily, there should be no compulsory acquisition of godowns and warehouses (on behalf of the Corporation). Where, however, a godown or a warehouse is situated in a regulated market or at any other place notified in this context, the acquisition may be compulsory but on payment of compensation etc. The same applies to State Warehousing Companies and co-operative societies. 12

43 The State Governments should promote the establishment of regulated markets on a more extensive scale than hitherto; those States which have not yet passed the necessary legislation should do so without delay. 12

Serial No.		Chapter 35 Paragraph No.
44	At all the centres to which either the All-India Warehousing Corporation or a State Warehousing Company has extended its operations, the management of the regulated market should be statutorily entrusted to that institution. A local advisory committee may be appointed to assist the officer of the institution at such places. As long as a regulated market continues to be managed as at present, i.e., by a market committee etc., under the existing law, provision should be made for the nomination on the committee of one or two representatives of the co-operative marketing and banking institutions, if any, of the locality. These representatives should similarly be on the advisory committee wherever the regulated market has been taken over by the All-India Warehousing Corporation or a State Warehousing Company.	12 & 18
	C. STATE WAREHOUSING COMPANIES	
45	The authorized share capital of a State Warehousing Company should normally be Rs 2 crores and the issued and paid-up share capital, Rs 50 lakhs.	13
46	Not less than 50 per cent of the share capital of a State Warehousing Company should be subscribed by the All-India Warehousing Corporation on condition that the rest is subscribed by the State Government. There should be no other contribution to the share capital of the State Warehousing Company. The statute governing the National Co-operative Development and Warehousing Board and the All-India Warehousing Corporation should also provide for the establishment of a State Warehousing Company in any particular State as soon as the State Government agrees to pay the stipulated part of the share capital of the Company.	14
47	The Board of a State Warehousing Company should consist of eleven members including the Chairman and the Managing Director. The Chairman should be nominated by the All-India Warehousing Corporation. The Managing Director should be appointed by the All-India Warehousing Corporation in consultation with the Board of the State Warehousing Company.	15
48	The main functions of a State Warehousing Company include the acquiring and building of godowns at places other than those earmarked for the All-India Warehousing Corporation; running of licensed warehouses; doing 'distribution' work; and subscribing to the share capital of co-operative societies concerned with storage or warehousing as their primary function or as one of their primary functions.	16
	D. CO-OPERATIVE ORGANIZATIONS	
49	While a State Warehousing Company would ordinarily aim at having its own godowns and warehouses up to the district and sub-divisional	17

levels, co-operative warehouses should be established in the smaller towns and the taluka headquarters and at other important marketing centres in the semi-urban and rural areas. This programme can then be linked to the bigger villages by encouraging co-operatives in such villages to build godowns, seed-stores, etc., in exercise of their multi-purpose functions.

50 Where a State Warehousing Company has contributed to the share capital of a co-operative society, it will be open to the society to retire the share capital of the Company according to a phased programme of replacement. This principle, however, should not apply to societies in charge of godowns or warehouses at and above the sub-divisional and district levels where the Company should continue to hold not less than 51 per cent of the share capital of the society. 17

E. GENERAL

51 As a first step, such of the godowns belonging to the departments of civil supplies as may be found suitable for the purpose, should be taken over from Government or from their other owners by the National Co-operative Development and Warehousing Board; a co-ordinated plan should be worked out into which these may be fitted. The staff employed by the departments of civil supplies of different States may also be utilized, wherever possible, by the All-India Warehousing Corporation, State Warehousing Companies, etc. 20

52 Training classes for the officers in charge of the godowns, and in particular of the licensed warehouses, should be organized in conjunction with the scheme for the establishment of training colleges for the supervisory and other staff of commercial banks. There should be co-ordination and collaboration, at all levels of training, between the National Co-operative Development and Warehousing Board, the Central Committee for Co-operative Training, and the Advisory Council in charge of the Bankers' Training College. 19

V. THE CO-OPERATIVE AGENCY

(Chapters 36, 37 and 38)

(Chapter 36)

A. THE SYSTEM AS A WHOLE

53 As already indicated, the basis of reorganization of the relevant parts of the co-operative structure should be State partnership. The form and degree of such partnership would differ for different levels of the structure and for different types of institutions. At the apex level, such partnership would be direct, i.e., the State Government would directly contribute to the share capital of the institutions concerned. At the 2

district level, the State partnership would be through the apex institutions; in this instance, the State Government would provide funds (e.g., in the shape of additional share capital) to the apex institutions to enable them to contribute to the share capital of the institutions at the district level At the primary level also, State participation would be indirect; it would take the form of similar contributions to the apex institutions to enable them to provide funds to the organizations at the district level, which in turn would contribute to the share capital of the institutions at the primary level. In certain cases, e.g., marketing and processing societies, State partnership might be direct at all levels.

54 Each State Government should, as early as possible, draw up, in consultation with the Reserve Bank (or, as the case may be, the National Co-operative Development and Warehousing Board), a phased programme for the reorganization, on the basis of State partnership, of its co-operative institutions -- short-term credit, long-term credit, marketing, processing, milk supply, dairying, etc., at all levels. The programme should provide for each of these institutions, whether to be reorganized or to be newly established, having an initial minimum level of share capital which, over a period of years, will be raised to the optimum level. At the apex and central levels invariably (and at the primary level generally) not less than 51 per cent of the share capital of these institutions should be held by, or derived from, the State Government. The percentage may have to be more if contributions from the co-operatives etc., do not, together with Government's 51 per cent, come up to the initial minimum level. Further, as long as the process of increase from minimum to optimum goes on, Government should make additional contributions, directly or indirectly, in order to maintain the level of its partnership at 51 per cent. Until the optimum level is reached, it should be obligatory on members to increase their shareholding in conformity with the detailed requirements of the programme as worked out. Such compulsory contributions would first be for increasing the level of share capital from the minimum to the optimum. In the case of marketing and processing societies, the compulsory contributions from members should be fixed as a percentage of the turnover of the sales made through the society by each member; alternatively, they should be related to the size of the loans taken by the member from, e.g., a credit society with which the operations of the marketing or processing society are co-ordinated. Even after the optimum level has been reached, compulsory contributions should continue for retiring the State or State-derived contributions. In the case of the larger-sized primary agricultural credit society and all other societies at the primary level, the objective should be to retire the whole of the State-derived contribution within a period of time to be fixed after taking into account the relevant circumstances so that, at the end of that period, the societies at the primary level become fully co-operative. As regards the apex and central levels, while the 2

replacement of the State-derived share capital should proceed until this is reduced to 51 per cent, it should not continue beyond that.

55 So far as agricultural producers are concerned, the co-operative credit society should endeavour to cover as large a proportion of the population within as short a time as possible. There should be legal provision for a right of appeal against non-admission to the Registrar of Co-operative Societies. 3

56 The subsistence needs of the agricultural producer—as distinguished from specific 'consumption' needs connected with marriages, funerals, etc.—should be treated as needs which ought to be legitimately fulfilled by the co-operative credit system. 3

57 The credit arrangements for village handicraftsmen should eventually be part of the normal co-operative credit system; Government should, where needed, provide adequate guarantees to the system to enable it to undertake this work. 3

58 Credit arrangements for specific consumption needs connected with marriages, funerals, etc., should be made through a chit fund affiliated to the larger-sized primary agricultural credit society. This arrangement should cover others besides the ordinary members of the society itself; it should be open to village handicraftsmen, village labourers, etc., besides the cultivators.[1] 3

59 Special credit arrangements, involving even greater participation by the State Government, should be made for economically backward areas or those inhabited by backward tribes.[2] 2

60 The co-operative credit structure should be so designed as eventually to serve also the short-term credit needs of workers in cottage industries.[3] 2

61 Short-term agricultural loans (i.e., those limited to 15 months) as well as medium-term agricultural loans (i.e., those ranging from 15 months to 5 years) should be provided by the state co-operative banks, central banks, etc. In this context, special attention should be paid to loans for the purchase of livestock. Long-term agricultural loans (i.e., those extending beyond 5 years) should be provided by land mortgage banks. 4

62 While the state co-operative bank and the central land mortgage bank should continue to remain separate entities legally and financially, direction and management should be common to the farthest extent possible and the same administrative staff should operate under the two types of institutions. Thus, they should have a common board of directors, a common administrative machinery and a common building to house them; if it is 4

[1] For detailed proposals on this subject, reference is invited to Chapter 26.

[2] For details on this subject, reference is invited to Chapter 40.

[3] A reference is invited in this context to Chapter 44.

not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to States where either state co-operative banks or central land mortgage banks have to be newly established.

63 Complementary to the establishment of a National Agricultural Credit (Stabilization) Fund in the Reserve Bank is the need to institute individual Agricultural Credit Stabilization Funds of their own by state co-operative banks, central co-operative banks, and, wherever feasible, also by the larger-sized primary agricultural credit societies. The dividend in excess of a prescribed level paid on shares held by Government (directly or indirectly) should, in part, be credited to this Fund. Dividends in excess of a slightly higher level, in the case of those payable to other shareholders, should also be credited to the Fund. 5

64 Assistance from the Agricultural Credit Stabilization Fund would be subject to certain conditions which have been indicated. 5

B. THE STRUCTURE AT THE APEX LEVEL

(i) *State Co-operative Banks*

65 The membership of state co-operative banks should be open to all central banks and such other co-operative credit institutions as have direct dealings with it. A strictly limited number of individuals may be allowed to become members. 6

66 Ordinarily, Government should not be allotted more than a third of the seats on the directorate for nomination of its representatives. (This applies to all co-operative institutions in which Government is the major shareholder.) At the same time, Government should, on certain specified matters, have overriding powers. The nominees of Government should include the Registrar of Co-operative Societies, and, ordinarily, a representative of the finance department and a banking or financial expert. Special care should be taken in the selection of the chief executive of the bank (managing director or manager). His appointment should be subject to the Government's approval. 6

67 In addition to accretion to share capital through State partnership, two methods of increasing share capital suggested for adoption are: (*a*) to insist on the contribution by member central banks and societies of an amount equal to a prescribed proportion of their own share capital and (*b*) to relate the borrowing of members to their shareholding. These devices should be adopted only to the extent that they are not detrimental to the major objectives of policy. 6

68 It should be provided in the constitution of state co-operative banks that they can contribute to the share capital of central banks. 6

69 In the loan operations of state co-operative banks, the demands for agricultural credit should receive the first priority. Financing of traders, merchants and other 'individuals' should be curtailed, if necessary by stages, but as speedily as possible and eventually given up. Loans to individuals should be given only to a very limited extent, e.g., against their fixed deposits with the bank. 6

70 The apex bank should be made the custodian of the surplus resources of the co-operative banking system and for this purpose all co-operative central financing agencies should be statutorily required to invest their surplus funds in the apex bank. 6

(ii) *Central Land Mortgage Banks*

71 Each State should have a central land mortgage bank. 7

72 The State Governments should review their tenure and tenancy laws and take steps to eliminate such features in them as, without being essential to policy, are hindrances to the development of land mortgage banking. Where land reforms necessitate restrictions on the mortgaging of title, the scope of such restrictions should be the minimum necessary. Thus, selective mortgages—e.g., to co-operative societies and to Governments—could be made permissible. Further, any special procedure for registration of mortgages under the land reform acts (and the general procedure itself for registration of mortgages on land) should be made simple, cheap and expeditious. Similarly, the provisions of the law should ensure that the title passed is as clear and as secure as possible. 7

73 The size of Government contribution to share capital, while subject to a minimum of 51 per cent, should be such as to help establish, irrespective of the proportion of private capital forthcoming, an adequate number of central land mortgage banks whose financial structure enables them to borrow adequately and lend adequately. 7

74 It should be provided in the constitution of central land mortgage banks that they can contribute to the share capital of primary land mortgage banks. 7

75 Land mortgage banks should orient their operations to production; i.e., they should give first priority to applications for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipment and other productive purposes. Along with this, non-productive loans of low priority should be discouraged. Applications for loans for amounts above a specified figure should not be entertained unless the loan is for agricultural development. Special efforts should be made to popularize productive loans. 8

76 Having regard to the policy recommended above, one of the very first needs is to evolve a machinery for achieving co-ordination of credit with 8

planned agricultural development, assessment of the technical soundness of projects and verification of the use of credit. Administratively, these will require, among other things:

(*a*) the adoption of techniques for making known the scheme of credit and the procedure for obtaining loans;

(*b*) close co-ordination with the appropriate Government departments and their district staff;

(*c*) expansion (and where necessary specialization) of staff of the central and primary land mortgage banks especially for supervision.

The improvements should be supervised from stage to stage during the execution of the project and the loan disbursed in instalments after each such supervision. In this matter, attempts should be made, wherever feasible, to bring about co-ordination between the supervisory staff of state co-operative banks and of central land mortgage banks.

77 In the context of a scheme of development loans by land mortgage banks, State Governments should guarantee, for a specified period, the difference between the value of the land before the improvement is effected and after it has taken place. 8

78 The State Governments should take suitable steps, including amendment of the relevant law to the extent possible, to ensure, wherever this can be done without infringing wider principles of law, that a mortgage to the bank has the effect of the title being unambiguously vested in it. Further, it should be provided that, on the basis of a guarantee by the primary land mortgage bank, a productive loan can be disbursed as soon as the preliminary investigation of title is completed. The guarantee of the primary bank will cease once the title to the land is found to be in order after detailed investigation. For providing such guarantee, each primary land mortgage bank should constitute a guarantee fund of, say, Rs 25,000 to start with. The State Government should initially provide Rs 5 lakhs to the central land mortgage bank for enabling it to create necessary guarantee funds for its primary land mortgage banks. 8

79 Schemes of productive loans should in particular be initiated in areas newly brought under irrigation or about to be irrigated as well as in some of the Community Project Areas. 8

80 Land mortgage banks should be recognized as Government's agency for the distribution of productive long-term loans in areas newly brought under irrigation, wherever such a step is practicable. 8

81 The period of repayment of loans for land improvement and production should be related to the purposes of the loans; different periods should be prescribed for different purposes. 9

82 Land mortgage banks should regulate their second and third loans in regard to purpose, amount, period and interest in such a manner as to exert a beneficial influence on the borrower and hold in check any tendency on his part to borrow frequently. Such loans should be provided for productive purposes only. 9

83 Central land mortgage banks should issue debentures for varying periods in conformity with the purposes of the loans. Further, to fit in with requirements of rural investment, central land mortgage banks should introduce 'rural debentures'. 10

84 The Reserve Bank of India and the State Bank of India should take positive steps for the creation of an effective market for the debentures of land mortgage banks. 10

85 There should be provision for issue of 'special development debentures' by land mortgage banks with the object of their being purchased wholly or in part by the Reserve Bank. 10

86 Apart from the different forms of State assistance already mentioned, there should be: (i) Government guarantee as regards both principal and interest of the debentures of central land mortgage banks, (ii) provision of staff for valuation of land, examination of schemes of land improvement, assessing their technical soundness, etc., (iii) provision of overdraft facilities, (iv) exemption from stamp duty, registration fees, etc., (v) enactment of special legislation containing various provisions for facilitating the working of land mortgage banks and (vi) special assistance to land mortgage banks in undeveloped areas, with reference to their administrative costs, in order to enable them to function on an economic basis. 11

(iii) *State Co-operative Marketing Societies etc.*

87 As soon as the development at the primary and other stages makes this appropriate, state co-operative marketing societies should be set up, or the existing ones reorganized, in the several States. 12

88 In new state co-operative marketing societies, no individual should be admitted as a member As regards existing state co-operative marketing societies, immediate action should be taken to ensure that their managing boards are preponderantly representative of societies and not individuals; the next step should be the complete elimination of individuals from membership. 12

89 The co-ordination of the state co-operative marketing society with the state co-operative bank should be as effective as that of the central land mortgage bank with the state co-operative bank, even though such co-ordination has to be less formal. 12

90 The main functions of the federal co-operative marketing structure should be the marketing of crops, distribution of certain basic goods 13

which the cultivator needs as a producer and as a consumer, and certain developmental functions such as the construction of godowns and warehouses.

91 There should be major State participation in the share capital of marketing societies (as also processing societies, dairying societies, etc.) from the apex to the primary level at not less than 51 per cent and for an indefinite period. 14

92 The State Government should provide the services of trained technical personnel to societies connected with marketing, processing and other economic activities. Programmes for the State-wise organization and development of such societies should be drawn up by the State Governments in conjunction with the National Co-operative Development and Warehousing Board and the training of personnel pursued in the light of such programmes. 14

93 In connexion with the licensing of plants, factories and mills (other than at the cottage industry level) engaged in the processing of agricultural commodities or in related activities, Government should, before issuing a licence for a *new* plant, factory or mill in any particular area, ascertain whether any existing co-operative society, or one likely to be formed, is both willing and in a position to take up the work. In that case, the licence should be issued to the society and not to the private party. 14

C. THE STRUCTURE AT THE CENTRAL (OR DISTRICT) LEVEL

(i) *General*

94 The establishment of a central bank should ordinarily be preferred to the establishment of a branch of the state co-operative bank. In relatively undeveloped areas, branches of the state co-operative bank may be preferable, but even in these instances, such branches should eventually be replaced by central banks. 15

95 The central land mortgage bank should, in the first instance, operate in the district through a 'section' of the central co-operative bank or the branch of the apex bank. When long-term loans are sufficiently numerous and business, actual and potential, is large enough to make the economic working of a branch possible, the section may be converted into a branch of the central land mortgage bank; it should continue to be located in the same building as the central bank. The final stage would come when, in course of time, the business expands much farther and groups of borrowers are prepared to form a primary land mortgage bank. The branch of the central land mortgage bank could then, if appropriate, be converted into a primary land mortgage bank which would, however, continue to be situated in the same building and remain co-ordinated in its working with the central bank. 15

Serial No.		Chapter 36 Paragraph No.
96	In States which are relatively small in size, the state co-operative bank can deal direct with the primary agricultural credit societies at the rural base.	15
	(ii) *Central Co-operative Banks*	
97	Ordinarily, there should be only one central bank for each district in order that the working of the banks may be economic. A plan to rationalize and strengthen the working of central banks should be drawn up for each State. Central banks which refuse to co-operate in the fulfilment of such a plan should be disaffiliated from the state co-operative bank and denied all privileges by the administration.	16
98	In the context of the economic operation of central banks, the Standing Advisory Committee has indicated certain minimum standards as working guides in the formation of new banks and reorganization of existing ones. (Paid-up share capital and reserves of about Rs 3 lakhs and working capital of Rs 20 to 25 lakhs.) These are endorsed in the sense in which they have been put forward by that Committee.	16
99	State partnership (through the state co-operative banks) should not imply the nomination of more than a third of the directors by the state co-operative bank, but, as in the case of state co-operative banks, Government should have special powers. Further, in so far as State-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank of India should invariably be nominated as one of the members of the board of the particular central co-operative bank.	16
100	The practice of having officials as chairmen should be the exception and not the rule; every effort should be made to enlist suitable non-official co-operators for such offices.	16
101	State partnership (through the state co-operative banks) in the share capital of central banks, at a level not below 51 per cent should continue for an indefinite period. Some of the other methods of increasing share capital are to lay down that the investment of a member society in the share capital of the central bank should be related to the share capital of the society itself and, further, that its borrowings from the central bank should be linked to its shareholding in the bank. In prescribing such requirements, however, it should be ensured that they are not pressed to the point of compromising major objectives of policy.	16
102	The constitution of central banks should provide for the possibility of their contributing to the share capital of primary agricultural credit societies.	16

Serial No.		Chapter 36 Paragraph No.
103	The need for building up adequate reserves should engage the most careful attention of the co-operative departments and of the directorates of central banks.	16
104	The first priority in loan operations of the central banks should be given to the requirements of agricultural credit societies; loans to individuals should be rigidly restricted, e.g., to advances against their fixed deposits. Loans to merchants and traders, wherever now given, should be eliminated within the shortest time possible. Subject to the fulfilment of certain prerequisites, central banks and their branches or branches of the state co-operative bank may issue loans on the pledge of gold and jewellery or against approved securities. (This also applies to selected larger-sized primary agricultural credit societies.) Individual agriculturists may be admitted as members as a purely transitional arrangement, pending the establishment of co-operative societies in the areas concerned.	16
105	No central bank should engage in trading activities.	16
106	Wherever the 'margin' of the rate of interest kept by a central bank is unduly high, the operations of the institution should come under the special scrutiny of the Registrar and of the inspection organization of the Reserve Bank.	16
107	The central banks should build up close and continuous contacts with the primary agricultural credit societies, be sympathetic and responsive to their needs and endeavour to assist them to the best of their capacity.	16
108	The co-operative financing agency at the headquarters should have branches at some intermediate level between the village and the district headquarters, such branches being sought to be established at least at sub-divisional centres to start with and thereafter at other suitable places. Programmes of this kind should be pursued in conjunction with similar programmes for branch extension of the State Bank of India.[1] This recommendation is of particular application to States in which the co-operative credit structure has not yet reached a fair degree of development.	16
	(iii) *Urban Banks*	
109	In areas where central banks or branches of apex banks are not functioning, urban banks may be allowed to finance rural societies as a transitional measure.	16
110	Urban banks may extend their operations as regards loans against pledge of gold and agricultural produce to villages within five miles of the area of the towns in which they are located, if there are no primary agricultural credit societies in the villages concerned. The granting of loans by urban banks against agricultural produce should be allowed only in areas where co-operative marketing societies are not functioning.	16

[1] For detailed suggestions on this subject, reference is invited to Chapter 34.

Serial No.		Chapter 36 Paragraph No.
111	The surplus funds of urban banks should ordinarily be invested in state and central co-operative banks.	16
	(iv) *District Marketing Societies*	
112	District marketing societies may be formed either on a territorial or on a commodity basis according to local conditions.	17
113	There should be a minimum and an optimum level of share capital for each district marketing society. The State Government should hold at least 51 per cent of the share capital of such societies. With a view to increasing the share capital to the optimum level and thereafter retiring the State's part of the share capital till it stands at 51 per cent, there should be compulsory contributions from members in the shape, for instance, of compulsory deductions in proportion to the turnover of their sales.	17
114	Well-organized district co-operative marketing societies may also operate as societies for processing of agricultural commodities.	17
115	Technical staff should be made available to these societies by the State Government.	17
	(These recommendations also apply *mutatis mutandis* to certain other forms of organization of co-operative economic activity and, in particular, to co-operative processing societies.)	

D. THE PRIMARY STRUCTURE

(Chapter 37)

	(i) *Primary Agricultural Credit Societies*	
116	The future line of development of co-operative credit at the level of the village should be unhesitatingly in the direction of bigger societies covering larger areas. Primary agricultural credit societies should hereafter be established, or wherever necessary existing ones reorganized, so as to cover, according to local conditions, groups of villages with a reasonably large membership and reasonably adequate share capital. The headquarters of the larger-sized primary credit society, new or reorganized, should be conveniently situated for the people of the villages comprised in its jurisdiction. If there is a marketing centre in the area it should, if possible, be located at that centre. As a rule, the area of operation of the society should be such as to provide it with adequate business.	2
117	Reorganization of existing societies should be attempted only where necessary and as and when this can be done without considerable dislocation. A phased programme of reorganization, confined to contiguous societies which would gain by amalgamation, would therefore be appropriate. However, in regard to fresh registrations of primary agricultural credit societies, the model adopted in regard to size etc., should, by	2

preference and to the maximum extent possible, be the larger-sized society. More especially, there should be a concerted drive to organize such societies in selected areas such as those in which Community Projects or National Extension Service Blocks have been in operation or are about to be established.

118 The membership of agricultural credit societies in general, larger-sized or small, should be open to all persons residing in the areas of their operations. Further, as already mentioned, a person who is refused admission to the society should have the right to appeal to the Registrar of Co-operative Societies. 3

119 The larger-sized primary agricultural credit society should be established on the basis of limited liability which may be confined to the value of shares held by them or, preferably, to a certain multiple thereof. 4

120 Each of the larger-sized societies should have an initial minimum level of share capital which should be raised in a specified period to an optimum level. The central co-operative bank should initially contribute to the society whatever amount is necessary for ensuring that the total share capital is not below the minimum level. For this purpose, the State Government should make the needed finance available to the state co-operative bank (e.g., in the shape of additional share capital) to enable it to provide funds to the central co-operative bank. Until the optimum level is reached, there should be compulsory contributions from members together with proportionate (indirect) contribution by Government. After the optimum level is reached, Government-derived contribution should cease, but compulsory contributions from members should continue for retiring the whole of Government-derived contribution within a suitable period. The shares of the society should be of suitably small denominations. 5

121 As a rule, only fixed deposits should be accepted by primary agricultural credit societies and current deposits confined to the apex and central banks and their branches. In selected instances, however, a primary society may be permitted to operate savings accounts, and accept deposits for the purpose on behalf of the bank to which it is affiliated. It should be paid a suitable commission for its work as agent. 6

122 Agricultural credit societies in general should be encouraged to deposit their funds with central banks. The latter may consider the desirability of paying on such deposits a rate of interest which is slightly higher than its normal rate. 7

123 There should be annual allocations to reserves out of profits. 8

124 The maximum borrowing limit of the larger-sized primary agricultural credit societies should be fixed at a certain multiple of their paid-up share capital and reserves. 9

125 In regard to loan operations, the emphasis should be on crop loans. There are various precautions which it is possible to take, and which should be taken, in working the system of crop loans. For instance: 10

(i) The amount of the crop loan should be so fixed as to form an adequate proportion of the cash outlay per acre of crops.

(ii) Wherever appropriate, loans may be given in instalments.

(iii) The loans should be in kind to the maximum extent possible.

126 The State Governments should consider the desirability of enacting legislation so as to induce the prompt repayment of crop loans given by co-operative societies. 10

127 For the success of the crop loan system, two important prerequisites are adequate supervision and efficient arrangements for recovery of loans. It will be for the primary society and the central bank, together, to provide for both. The development of co-operative marketing will make a most significant contribution to the effectiveness of recovery as well as to the success of the crop loan system. 10

128 The 'rationing' of available funds when they fall short of legitimate credit requirements should be in favour of the medium and small cultivators. 11

129 Besides crop loans, primary agricultural credit societies may provide medium-term loans (i.e., for periods longer than 15 months but not exceeding 5 years) for productive purposes; the total of such loans should be limited to paid-up capital and reserves together with the medium-term funds obtained from the central financing agencies. 12

130 Agricultural credit societies may also supply members' requirements for crop production and also basic, but standardized, consumers' goods on the basis of indents or of established demand. The Registrar may permit a society to resort to the system of outright purchase and sale (as distinguished from the 'indent' system) to the extent of twice the paid-up share capital, if the size of the society, its financial strength and the soundness of its management permit. 13

131 Subject to the fulfilment of certain prerequisites, selected larger-sized primary agricultural credit societies may issue loans on the pledge of gold and jewellery or against approved securities. 14

132 There should be a close link between primary agricultural credit societies and marketing societies. The primary society should finance its members on condition that their produce is sold through the marketing society with which it works in co-ordination. The primary society will act as agent for the sale of the produce to the nearest co-operative marketing 15

society, assemble the produce of its members, supervise and, if necessary, arrange for the transportation of the produce.

133 Every larger-sized primary credit society should have a paid, full-time, qualified secretary who has, if possible, been trained under the scheme of the Central Committee for Co-operative Training. 16

(ii) *Primary Land Mortgage Banks*

134 Before organizing primary land mortgage banks, there should be a careful enquiry into the conditions of each area such as the volume of business available, the nature of holdings and tenures, etc. 17

135 The area of operations of a primary land mortgage bank should be compact enough to make close touch with borrowers possible, but not so small as to render the bank an uneconomic unit. 17

136 State partnership in primary land mortgage banks should follow the same broad lines as that in the larger-sized primary agricultural credit societies. For instance, the Government contributions will be in the form of an addition to the share capital of central land mortgage banks which in turn will take up shares of primary land mortgage banks. 17

(iii) *Grain Banks*

137 In the relatively undeveloped areas, especially those peopled by backward or tribal classes, the organization of grain banks should be undertaken under the sponsorship of the State Government and preferably through the co-operative department. 18

(iv) *Primary Marketing Societies*

138 Primary marketing societies should be established at either important *mandis* (wholesale markets) or at taluka centres (sometimes the two would coincide) as convenient. Primary marketing societies (as also co-operative societies for processing and for other important economic activities) should, to start with, be organized only in selected places, i.e., cautiously and with a view to assured success. 19

139 It is necessary to ensure by positive State supervision that every marketing society at the primary level is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests looked after by those in charge of it. 20

140 Government should ordinarily make a direct contribution to the share capital of primary marketing societies. There should be a minimum level of share capital as also an optimum one. Government's part of the share capital should commence to be retired once the optimum is reached. 21

Seria No.		Chapter 37 Paragraph No.
141	There should be compulsory contributions to share capital from members. These should be related to the turnover of the member's sales through the society or, alternatively, to the size of the loan taken by the member (from, e.g., a credit society with which the operations of the marketing society or processing society are co-ordinated).	21
142	The State Government should provide the primary marketing society with trained personnel for performing various technical functions.	19
143	The main function of a primary marketing society will be to market the produce of its members, but it may take up the functions of processing and also pooling and grading.	22
144	In areas where certain crops are very important, separate marketing societies may have to be set up crop-wise, instead of region-wise. In other instances, a general marketing society should ordinarily suffice.	22
145	At each centre where a marketing society operates, there should be either a larger-sized primary agricultural credit society or a branch of the central co-operative bank, so that credit and marketing may be effectively linked.	22

E. PERSONNEL, SUPERVISION AND AUDIT

(Chapter 38)

146	A pool of trained officials, partly for the State Government's own needs and partly for deputation to co-operative institutions, should be created. In this matter, account will have to be taken of the needs of co-operative institutions, credit and other, to which it would be desirable to lend the services of trained personnel until such time as these institutions are placed on a sound footing and can commence employing their own trained personnel. In most States, however, this latter development is likely to take a long time and, meanwhile, the provision of trained staff especially for the key posts of the institutions is of the utmost importance. The loaning of personnel for some of these posts may, where appropriate, be the function of the state co-operative bank which accordingly will have to enlarge its own cadres for this purpose; but this would be possible only in the very few States in which the state co-operative banks are themselves well developed and efficient. Elsewhere, part of the trained staff of even the state co-operative bank, for important posts, will have to be provided by the State Government. For marketing, processing, etc., as distinguished from credit, the function of providing technical personnel will devolve on State Governments and not on state co-operative banks.	2
147	The loan of services should be on terms which do not place an undue burden on the co-operative institution; e.g., leave and pension charges	2

could be waived and, where warranted, a part of the salary itself met by Government.

148 The State Governments should institute, as early as possible, two broad divisions in their Co-operative Services, one 'Administrative' as at present, and the other 'Technical', each composed of three cadres: Class I, Class II and Subordinate. 2

The State Co-operative Administrative Service (Class I and Class II) will be responsible (as it already is in many States) for carrying on the normal administrative duties of the co-operative department such as administration and audit.

Selected officials from the Subordinate Co-operative Service (Administrative) may be deputed to serve as secretaries of the larger-sized primary agricultural credit societies wherever that is necessary and feasible.

The State Co-operative Technical Service (Class I and Class II) will consist of specialized staff (e.g., financial advisers, managers of co-operative banks, technical personnel connected with marketing, industrial co-operation, processing, dairying, etc.) who can, where necessary, be deputed to serve in the institutions above the rural base.

The Subordinate Co-operative Service (Technical) will also consist of trained technical personnel, but they are meant for institutions at the primary level which require specialized staff, e.g., primary marketing or processing society.

The training of all these Services should be organized by, or under the guidance of, the Central Committee for Co-operative Training, working in conjunction with State Governments.

149 It is not suggested that existing personnel should be extensively replaced by persons belonging to the Government cadres. The problem really arises in regard to badly or inefficiently run institutions and new institutions to be set up. 2

150 The recommendation of the Co-operative Planning Committee regarding the qualifications etc., of the Registrar of Co-operative Societies is endorsed.[1] 3

151 It would be advantageous if the subjects of Co-operation, Agriculture and Cottage Industries (as well as Industries generally) were combined in one department in the secretariat of each State Government and placed in charge of a senior Secretary who might also be Development Commissioner. The Registrar would then work under the Development Commissioner-cum-Additional Secretary, as also would the Director of 3

[1] *Report of the Co-operative Planning Committee*, recommendation no. 197.

Agriculture etc. It would be a further advantage if all the subjects mentioned were combined in the portfolio of one Minister.

152 Supervision should be invariably treated as the legitimate function of apex banks and of co-operative central banks. In States where the co-operative movement is well developed, the staff for supervision may be engaged by the state co-operative bank itself. Elsewhere, the supervisors should be appointed by Government as part of one of its cadres and their services made available, on the basis of deputation, to the co-operative central financing agencies. 6

153 Provision should be made for an adequate number of supervisors. (These recommendations also apply to personnel of higher grades, e.g., managers etc., of apex and central banks.) 6

154 Audit (along with office inspection of co-operative organizations) should continue to be in the hands of Government. 8

155 Where there is a Development Commissioner, the Chief Auditor of the co-operative department should be responsible to him and not to the Registrar. 8

156 The existing audit staff should, without delay, be considerably strengthened in most States. 8

157 Co-operative institutions should usually, during the first few years of their existence, be exempted from payment of audit fees, the period of exemption being specified in the rules. This recommendation is specially important with regard to agricultural credit societies. 8

158 Professional audit should not replace departmental audit. But in certain instances (e.g., apex organizations, the bigger central banks and important marketing and processing societies), departmental audit may, with advantage, be supplemented by professional audit. [illegible]

159 For apex and central banks, big urban banks and other institutions with a large turnover, there should, as far as possible, be arrangements for concurrent audit. For all primary societies, there should be an interim audit at intervals of six months. 8

160 The audit section should arrange to verify periodically that the defects revealed by audit are promptly rectified. 8

161 A co-operative audit manual should be drawn up for each State. 8

162 There should be uniform standards of audit classification on an all-India basis for different types of co-operative organizations. The efforts being made in this regard by the Agricultural Credit Department of the Reserve Bank should be further pursued. 8

Serial No.		Paragraph No.

VI. THE TRAINING OF PERSONNEL

(Chapter 39)

Serial No.		Paragraph No.
163	The policy of granting substantial concessions in the shape of exemptions from fees, grant of stipends, etc., as part of the scheme formulated by the Central Committee for Co-operative Training for training higher and intermediate co-operative personnel is endorsed.	2
164	Special courses should be provided without delay for co-operative banking (including special training for land mortgage banking) and co-operative marketing (and processing) and, as soon as possible, for the subject of industrial co-operatives as well. All these special courses should be available at the higher, intermediate and subordinate levels of training.	2
165	Rural bias should be provided for in the programmes of training; it is important to select the right type of candidates at the very start. The details of the methods of recruitment should be worked out by the Central Government, State Governments and Public Service Commissions in consultation with experts on the subject.	2
166	The present period of training in the all-India training centre at Poona for the higher staff is 6 months. The period of training at this level should ordinarily cover a whole year—a 3 months' course at one or more rural centres (the course being so designed as to give the candidates a practical insight into rural surroundings, needs and problems); 6 months' training in the all-India centre (both general and special, the latter directed to the work the candidates will have to do); and lastly, another 3 months of purely practical training.	2
167	The all-India training centre should, in addition, function as a co-operative training college for the teaching staff to be employed at regional and other training centres and also for those who are charged with imparting instruction in Co-operation to village level and other workers in National Extension Blocks and Community Projects.	3
168	The relevant authorities and the Central Committee for Co-operative Training should investigate the question whether part of the training of 'extension' workers (as distinguished from that of their teachers), so far as such training relates to Co-operation, may not perhaps be best conducted at the regional training centres for intermediate personnel instead of at each of the multi-purpose training centres established for training such workers.	4
169	At the all-India centre particularly, and at the regional centres generally, part of the training in co-operative banking should consist of a special course in commercial banking. For this purpose, the Central Committee for Co-operative Training should examine the possibility	5

whether the Bankers' Training College can be of some use, e.g., by the provision of special short-term courses.

170 There should be general and special courses in administration, supervision and audit at all levels of training. Further, the candidates should be taken round to States such as Bombay and Madras where the co-operative movement is relatively well developed 5

171 The all-India centre and the regional centres will, in due course, have to cater not only for co-operative administration, banking, processing, marketing, cottage industries, etc., but also for the even wider variety of co-operative activity included in the First Five Year Plan. This larger objective should be kept in view in the selection of sites, designing of plans, etc., for the housing of training centres in their own buildings. The Reserve Bank and the Government of India should provide additional funds, recurring and non-recurring, for meeting adequately the expanded needs of training. 6

172 In regard to the training of non-official workers at different levels, the Central Committee for Co-operative Training should work in collaboration with the All-India Co-operative Union; it is suggested that the headquarters of the Union should be located in Bombay, and, if possible, in the same building as the Reserve Bank's Agricultural Credit Department. Provided the Union is willing to collaborate on these lines, the Reserve Bank should give every assistance in the matter of accommodation and co-ordination and the Central Government should make more funds available to the Union for activities falling within its sphere. 7

173 The Bankers' Training College and others of its type—all-India or regional which may be established hereafter—are of the utmost significance for that part of the scheme which relates to the State Bank of India. Part of the training may be common to the employees of the State Bank and those of other commercial banks, but special courses are necessary, in addition, for employees of the State Bank. Further, employees of the State Bank, especially those who are to be agents at district headquarter places, should be given a special course of training in co-operative banking at the all-India training centre at Poona. 8

174 Special arrangements should be made for the training of the officers, supervisory personnel and certain other categories of staff of the All-India Warehousing Corporation, State Warehousing Companies and co-operatives in charge of storage and warehousing.[1] 9

[1] Recommendation no. 52 may be seen in this context.

Serial No. | Paragraph No.

VII. GOVERNMENT FINANCE

(Chapter 40)

175 A scheme of 'supervised credit' will be completely beyond Government's administrative and financial resources, besides being likely to defeat its own purpose because of its concentration on instruction and enlightenment, where the real need is for promotion and reorganization of primary economic activity for the benefit of the cultivator. For much the same reasons, the idea of 'sponsored' co-operative membership, except in special circumstances should not be pursued. 2 & 4

176 *Taccavi* should be strictly limited, subject to certain exceptions of a transitional character, to periods of widespread distress such as famine, scarcity, floods, etc. 5

177 There should be co-ordination between the system of *taccavi* and that of co-operative credit in times of famine and distress, as also in the context of provision of *taccavi* at specially low rates of interest (as compared with those charged by co-operatives) for certain specified productive purposes. In the former context, no distinction for purposes of *taccavi* should be drawn between members of co-operative societies and others. In regard to the latter, as far as possible, loans required by cultivators should be advanced at uniform rates of interest. Where, however, Government desires to advance loans for special purposes at concessional rates of interest, such concessional finance should be made available through co-operative institutions. 6

178 The various State Governments should establish State Agricultural Credit (Relief and Guarantee) Funds which should be used in conjunction with the Government of India's National Agricultural Credit (Relief and Guarantee) Fund. Where irrecoverable arrears of debts due to co-operative credit institutions have assumed a magnitude which threatens the stability of the structure and provided the Ministry of Food and Agriculture is satisfied that such arrears have arisen from causes, such as widespread or chronic famine, beyond the control of the co-operative institutions concerned, the Fund of the Central Government can be utilized for the purpose of writing off such arrears; relief from this Fund may be made conditional on the State Government making a stipulated contribution for the same purpose from the corresponding Fund maintained by it. The proportion to be paid in such a context by the State Government should be related to its financial strength. 7

179 For economically backward areas, for areas largely inhabited by backward tribes and for economically backward occupational classes, where special schemes of Government for their benefit are in operation, the State should take special responsibility and provide administrative,

technical and financial assistance, including subsidies, guarantees, etc., where necessary, to the co-operative societies and the central banks or branches of state co-operative banks which in the aspect of credit are participants in the programme of special development.

180 Payments which may be necessitated as a result of certain categories of Government guarantee (e.g., guarantees to land mortgage banks in the context of the scheme of productive loans and guarantees in respect of short-term and medium-term accommodation for agricultural purposes provided by the Reserve Bank to state and central co-operative banks) should be legitimately payable out of the State Agricultural Credit (Relief and Guarantee) Fund. This Fund can also be drawn upon for payments of liabilities arising out of any guarantees in respect of areas which are economically backward or which are inhabited by backward tribes. There is, however, one type of guarantee which should not be brought within the purpose of this Fund, viz., the guarantee in respect of short-term accommodation from the Reserve Bank for approved cottage industries. 9

181 Two types of contribution to the State Agricultural Credit (Relief and Guarantee) Fund would be (*a*) annual budgetary provision by the State Government and (*b*) part of the dividend earned by the State Government on its share capital in the various co-operative credit agencies to the extent that such dividend exceeds a particular minimum. 10

182 As already mentioned, in the case of the Agricultural Credit Stabilization Funds (to be created within the co-operative credit structure), part of Government's dividend above a specified rate, should be earmarked within the institution itself for contribution towards the Fund of that institution. 10

183 In areas where the co-operative machinery is either non-existent or is almost insignificant, *taccavi* for productive purposes is unavoidable. But the borrowers should, at the earliest possible moment, be encouraged to form themselves into a co-operative society by the adoption of a positive policy of co-operative development. Further, the policy of giving *taccavi* should be confined to distinct and compact areas and should not apply, for instance, to people within the territorial jurisdiction of a co-operative society who are not yet members of that society. 11

184 The whole of the dividend payable to Government on its share capital in co-operative institutions (other than credit) should be funded by it into a State Co-operative Development Fund (corresponding to the National Co-operative Development Fund at the all-India level). The contributions to this Fund would be proceeds from this dividend as well as substantial annual contributions from the State Governments. 12

Serial No.		Paragraph No.

VIII. THE PRIVATE CREDIT AGENCIES

(Chapter 41)

185	The rates of interest prescribed in the different States under the money-lending legislation should be reviewed and revised wherever necessary.	2
186	The administrative arrangements for the enforcement of the provisions of moneylending legislation should be reviewed and adequate supervision ensured by the provision of the necessary staff, preferably under the Registrar of Co-operative Societies.	2
187	A review should be made of the moneylending legislation in different States to ensure that the provisions of their Acts cover the various points mentioned in the Report of the Agricultural Finance Sub-Committee.	2
188	For the wholesale trade and traders generally, for the forward markets, and for commercial banks, insurance companies and other financial institutions, one way which will be open for constructive participation in the integrated scheme is to contribute to the share capital and direction of the All-India Warehousing Corporation.	3
189	The development of storage and warehousing on the lines suggested in the Report will enable commercial banks to play a useful part in the sphere of agricultural finance. Further, it will be a desirable development if commercial banks orient themselves to the policies underlying the programme for the development of rural credit, especially that part of it which is connected with the financing of co-operative marketing societies, processing societies and similar co-operative institutions. Commercial banks and the other private credit agencies can also help by purchasing co-operative debentures.	4

IX. RURAL SAVINGS

(Chapter 42)

190 It should be recognized that: 2

(*a*) the need to make rural savings *possible* is much more important than to render rural savings *available* ;

(*b*) to the extent they exist, rural savings are most likely to be rendered available where most seen to be used for rural needs ;

(*c*) rural savings fall so short of rural needs, that they must be supplemented from, not diverted to, urban areas.

191 There are four specific ways in which the primary credit society, the central bank, the central land mortgage bank and the marketing, processing and other societies should be able to mobilize rural savings on a 3, 4, 5, 6 & 7

much larger scale than hitherto. These are connected with the suggestions already made regarding (i) chit funds, (ii) retirement of Government capital in co-operative banks etc., (iii) development of co-operative marketing, processing and other forms of economic activity and (iv) co-operative debentures of land mortgage banks.

192 The 'rural debentures' to be issued by land mortgage banks should, as far as possible, be for specific projects of development in which the villager is interested in different degrees and should be issued at the time of harvest and sale of crop. In regard to the period of repayment etc., these debentures should be so designed as to suit the requirements of the rural investor. 7

193 The Reserve Bank should agree to give accommodation on debentures of land mortgage banks as readily as on other forms of acceptable security. 7

194 Apart from a general liberalization of remittance facilities, in suitable areas, if not everywhere, co-operative banks should be given *free* remittance facilities. 8

195 State loans should be designed to mobilize savings from urban and semi-urban areas, rather than from the rural areas. These latter should be left to be drawn upon by land mortgage banks and co-operative societies. 9

196 Any extension of the experiment of 'mobile banks' should be restricted to areas which present no near prospect of development in the sphere of co-operative credit. It should be further stipulated that the commercial bank concerned, should, in any area covered by its 'mobile banks', undertake to advance, for agricultural and allied purposes, amounts not less than the deposits it collects from the area. 10

X. FOLLOW-UP, PUBLICITY, REVIEW AND RESEARCH

(Chapter 43)

197 By and large, as among the different State and co-operative institutions, it is in the Reserve Bank that much of the research in the sphere of rural credit should be concentrated. With regard to review and publicity, each Government and institution would have to make arrangements within its own sphere of the functions and responsibilities arising from the integrated scheme, but even here the residuary and co-ordinating responsibility has to be with the Reserve Bank.

Serial No.		Chapter 43 Paragraph No.
198	Though anything comparable in scale to the present All-India Survey need not be repeated in the near future, there is a need for a constant review of all the main features of the credit situation in the rural sector. A suitable machinery should be devised for this purpose on the basis that it will be operated by the Reserve Bank in collaboration with the Central Government, the State Governments and selected institutions. The recurring investigation, research and check-up for which this machinery would be responsible should broadly correspond to the lines of enquiry pursued in the Rural Credit Survey. On the basis of the findings of continual expert investigations of this kind, policies and measures should be modulated to important changes in circumstances. Where necessary, special steps of prevention or remedy should be taken in time.	3
199	A small section should be organized in the Division of Rural Economics of the Department of Research and Statistics of the Reserve Bank for devoting uninterrupted attention to further work on the drafts of the 'District Reports' and bringing out speedily the publishable reports etc.	3
200	Statistical and other material should be so compiled as to enable it to be judged whether effort is proceeding in conformity with policies decided upon by Government and, in particular, whether the benefit of the enlargement of credit and of co-operative economic activity is in fact reaching a wider range of cultivators especially at the middle or at the far end of the economic scale.	4
201	The statistics now collected by the Reserve Bank in the context of rural credit are largely confined to the co-operative credit movement and do not cover details in regard to other agencies such as the Central and State Governments and commercial banks. The Reserve Bank should suggest to each agency, and persuade it to accept, reforms in the mode and adequacy of the collection, compilation and presentation of information.	4
202	Co-ordination between the Agricultural Credit Department, the Division of Rural Economics and the Division of Statistics is very essential. In the Statistics Division, a special unit should be formed for dealing with statistical matters pertaining to rural credit.	5
203	Research alone should be the function of the Division of Rural Economics. The Agricultural Credit Department should continue to be in charge of all duties connected with compilation, review and publication.	6

XI OTHER MATTERS

(Chapter 44)

204	An enquiry should be conducted to ascertain (*a*) the extent to which damage, if any, is caused by forward markets to the interests of the rural producer and the measures needed for obviating such damage and	3

(*b*) whether these institutions can be so re-designed and controlled as not only not to do harm to the cultivator. but to be of positive benefit to him.

205 Investigation is suggested of the need for increasing the State Famine Funds, for instituting such Funds in States which have not yet established them and, above all, for the Government of India to institute an adequate Central Famine Fund. 4

206 Large funds should be allocated and large efforts made for the improvement of village roads, especially those which connect the villages to their marketing centres. 6

207 Transport conditions should be reviewed in relation to rural areas. An immediate examination should also be made of the rates which railways, State buses, etc, charge for the transport of the cultivator's produce to consuming areas. A similar review, to the extent that the State can influence the position, should be undertaken regarding the rates charged by boat and steamer services wherever the sea and rivers and canals are the main means of transport. 7

208 Besides roads, bridges, ferries, etc., also need to be provided for on a large scale in a more determined and much more adequately financed programme for the improvement of rural communications. 7

209 The recommendations of the Co-operative Planning Committee in respect of promotion of co-operative transport, co-operative workshops and, in certain areas, co-operative transport by country-craft are endorsed. 7

210 The desirability of State partnership in the co-operative reorganization and development of the handloom industry, and of cottage industries generally, is suggested. 10

211 The long-term and medium-term credit needs of co-operative agricultural and industrial enterprises in and for the rural areas (e.g., agricultural processing) can be more adequately met if the state financial corporations (which now exist in many States) adopt a positive policy of assisting such enterprises. Their needs in regard to working capital should be met by central co-operative banks, state co-operative banks, etc., which, in turn, can get accommodation for the purpose from the Reserve Bank. 11

212 It will be necessary for the State-cum-co-operative credit structure (or for the State on its behalf) to recruit and train the technical staff necessary for dealing with agricultural, cottage and small-scale industries in relation to their short-term, and in some degree their medium-term, credit needs. It will be needless for each of the different kinds of institutions to attempt to build up all the different types of technical personnel. 11

In this sphere, it will be desirable to have co-ordination and exchange of part-time services of technical personnel between these institutions, e.g., between the state financial corporations and the state co-operative banks.

213 So far as the reorganization and development of the credit side of cottage industries is concerned the Reserve Bank should play an active part and assist not only in establishing sound practices and conventions, but also in helping to promote the requisite forms of co-operative organization at different levels. 12

214 The drawing up of a detailed plan for the reorganization of credit and marketing arrangements for cottage and small-scale industries, rural and urban, if such a plan is to be of effective benefit to the small handicraftsman who is today dominated by various private interests, financial and other, has to be preceded by a detailed investigation of the relevant factors (including the socio-economic factors) on lines analogous to those attempted for agricultural credit in the All-India Rural Credit Survey. 13

APPENDIX

GENERAL QUESTIONNAIRE ON AGRICULTURAL CREDIT

INTRODUCTORY NOTES

THE All-India Rural Credit Survey is being conducted by a Committee of Direction appointed by the Reserve Bank of India. This Questionnaire is issued by the Committee. It seeks to elicit informed views on some of the more important aspects of agricultural credit in this country. It is, therefore, addressed in particular to those who have acquired special knowledge of any of those aspects, either through specialized study or in the course of professional or other experience, whether in the non-official sphere or in the service of Government. Views based on such study or experience will be a valuable supplement to the factual data now in the process of collection through field enquiries organized by the Committee in 75 districts spread over different States in the country. The Committee will be grateful for all such views.

2. The Questionnaire is divided into different sections: Government Finance, Co-operative Finance, Private Finance, etc. It is realized that the same individual may not be familiar with all the aspects on which the queries have been framed. The answers may, therefore, if desired be confined to selected sections or to selected questions in one or more sections.

3. Where the answers are based on study of particular regions or institutions, the regions or institutions may please be specified. Similarly, where the views are derived from personal experience, the type and extent of that experience may kindly be indicated.

4. Wherever feasible and convenient, it is requested that concrete facts may be cited or specific information given in support of the views expressed.

5. It is explicitly understood that any opinions communicated will be treated as the purely personal views of the individual expressing them; and that if, for instance, the individual is a Government servant or the office-bearer of an institution, his views in no manner commit the particular Government or institution.

6. The Committee undertakes, on specific request, to treat all or any of the views expressed or information given as confidential, and as therefore not for publication or for communication outside the Committee.

7. Replies to the Questionnaire may kindly be posted to the Member-Secretary, All-India Rural Credit Survey, Reserve Bank of India, Post Bag No. 1036, Bombay, so as to reach him on or before 15 July 1952.

I. GOVERNMENT FINANCE

Most State Governments give loans, short-term, medium-term and long-term, for agricultural purposes. Thus, short-term crop finance may be provided through *taccavi* loans, and long-term loans may be given under the Land Improvement Act. There may also be provision for special types of loans under the grow-more-food schemes or under other individual schemes. Please answer the following questions with reference to all or any such schemes, specifiying the scheme or schemes referred to:

1. What are the broad features of the scheme, with special reference to (*a*) the objects underlying it, including the types of loans envisaged and the manner of their repayment, (*b*) the budgetary provisions made and (*c*) the administrative arrangements set up?

2. Is there anything in the scheme itself, i.e., in its formulation as distinguished from its financial and administrative implementation which tends to defeat the objects underlying it? (For instance, limits for individual loans may be too low or terms of repayment too onerous. Or again, lacunæ in the scheme may result in relatively urgent needs being passed over in favour of others of less importance.)

3. What, in your opinion, is the degree of adequacy of the actual financial provision made from year to year (with reference, e.g., to the number of individuals who obtain loans under the scheme and the average amount of the loans they obtain)?

4. How far do the administrative arrangements carry out in practice the objects envisaged, and how do they work from the point of view of the cultivator? In your reply, please refer if possible to the various stages involved, e.g., application for the loan, its scrutiny, its sanction, its disbursement, supervision over its utilization, enforcement of repayment, etc. What is the quality and efficiency of the supervisory and other staff employed at the various stages? Please state whether, in your opinion, incompetence, slackness, corruption, etc., exist to such an extent as materially to affect the successful working of the scheme. If so, to what extent do they defeat the objects of the scheme?

5. In regard to underlying objects, financial provision and administrative arrangements, are the different schemes of Government properly co-ordinated with one another and with similar operations of co-operative institutions and other agencies of credit? If not, how does the overlapping occur and to what extent does it lead to administrative duplication, financial wastefulness, etc.?

6. Have you any other comments or suggestions to make in this connexion?

II. CO-OPERATIVE FINANCE

The following observations are made, not because they are not obvious, but in order to invite attention at one place to certain broad lines of analysis which are relevant to more than one of the questions set down below and which, it is requested, may be borne in mind in answering individual questions.

Co-operative credit for agricultural purposes may be (*a*) short-term (e.g., for seasonal agricultural operations or for the marketing of crops, the latter including processing, transport and warehousing) or (*b*) medium-term (e.g., for digging of wells, purchase of livestock or purchase of certain types of equipment) or (*c*) long-term (e.g., for repayment of debt or improvement of land). The individual societies concerned may be classified with reference to (*a*) type of credit specialized in (e.g., credit society and land mortgage bank) or (*b*) scope of activity according as it is confined to credit or also includes non-credit functions (e.g., primary credit society and multi-purpose society) or (*c*) the area of operations (e.g., primary society for village or group of villages, and district or central bank) or (*d*) functional level occupied in the organization (e.g., district or central bank as link between primary society and state or apex bank). In connexion with the co-operative credit organization of any particular area, therefore, it will usually be necessary to consider the structure and the functioning of units of different types, both individually, and in relation to the other units operating in the area either at the same level or at a different level. Where the area is part of a State, it is further necessary to remember that the regional organization is part of the larger State organization. Moreover, co-operative credit is only one aspect of Co-operation; in other words, the co-operative credit system is only part of the wider co-operative system of the State. Several interrelations have thus to be kept in mind in assessing the inadequacies of the credit organization in any particular area and in formulating remedies therefor. Some of the inadequacies may be traceable not to the organization itself—i.e., the given structure with its prescribed functions—but to the policies or objects pursued (whether these are explicitly laid down or are implicit in the broader practices) or the finances available and efforts made for their mobilization or the actual working of the personnel concerned with the taking and implementation of decisions (e.g., directors, paid supervising staff, etc.). Replies which deal in detail with all or any of the aspects mentioned above will be particularly welcome.

1. What is the relative place occupied by the co-operative credit system in agricultural finance? In other words, in the particular area to which your answer relates and in comparison with the other sources of agricultural credit coexistent in that area, what place would you assign to the co-operative credit system with reference to factors such as volume of finance made available, number and classes of borrowers whose needs are met, types of loans given (period, purpose, etc.), nature of security taken, rate of interest charged and mode of repayment enforced? Any special advantages or disadvantages in comparison with the other credit agencies—Government or private—may please be indicated with reference not only to the formulated or implicit objects of the different agencies, but also to their working in actual practice.

2. Are there any features connected with the law, regulations and policy governing the system or its individual units—as distinguished from organization, finance and actual working—which tend to defeat the objects underlying it? (For instance, the fact that the liability of members is unlimited may make for successful working or it may not; there may be undue restrictions on membership; the limits for individual loans may be too low; proper priorities may not have been laid down as between purposes for which loans are given and so on) What remedies would you suggest?

3. What, if any, are the defects of organization with reference to the structure and functions of (*a*) different types of individual units, (*b*) the individual units in relation to one another and (*c*) the organization in the area in relation to the larger organization in the State as a whole, including units outside the area such as the apex bank? What remedies would you suggest?

4. Are the finances adequate? If they are avoidably inadequate, what remedies would you suggest?

5. What, if any, are the defects in the actual working of the system, both the regional organization and its individual units? To what extent are these defects traceable to the quality of the personnel in charge of (i) direction (e.g., members of a board) and (ii) management, supervision and execution (paid officers and staff)? How does the constitution of an individual society work in practice, e.g., how are the powers actually exercised by the different authorities involved? To what extent does the local background (social, political, etc.) affect the actual working? Please contrast the working of successful and unsuccessful societies and, if possible, give reasons for the differences. What remedial measures would you propose in regard to the defects noticed?

6. In general, have you any scheme to suggest for the effective reorganization of the co-operative credit system in the area, with reference to factors such as

(*a*) promotion of thrift and mobilization of savings;

(*b*) financial adequacy;

(*c*) administrative efficiency;

(*d*) demarcation of productive and unproductive credit, creditworthy and non-creditworthy members, etc;

(*e*) proper integration of short-term, medium-term and long-term credit; and

(*f*) effective linking of marketing credit with production?

7. Have you any other comments and suggestions to make in this connexion?

III. PRIVATE FINANCE

The phrase 'private finance' is used here as covering agricultural finance derived from any source other than Government and the co-operative system. Among the private credit agencies which make available such finance, two obvious categories are moneylenders (whether or not professional) and indigenous bankers (who, besides lending, perform certain other banking functions such as acceptance of deposits). Commercial banks, both scheduled and non-scheduled, are a third category, and certain other credit institutions—such as chit funds—constitute a fourth. Other agencies to be kept in mind, in that they sometimes lend to the agriculturist in the course of the discharge of their main functions, are brokers, traders, wholesalers or agents of wholesalers, export and import houses, processors of agricultural commodities, etc. In answering the following questions, please bear in mind the distinction between these categories and subcategories and indicate the particular private credit agency or agencies to which your replies have reference.

1. What is the relative place occupied by the private credit agency in agricultural finance? In other words, in the particular area to which your answer relates and in comparison with the other sources of agricultural credit coexistent in that area, what place would you assign to the private credit agency with reference to factors such as volume of finance made available, number and classes of borrowers whose needs are met, types of loans given (period, purpose, etc.), nature of security taken, rate of interest charged, and mode of repayment enforced? Any special advantages or disadvantages in comparison with the other credit agencies—in particular, Government and co-operative societies—may please be indicated with reference not only to the formulated or implicit objects of the different agencies, but also to their working in actual practice.

2. What are the main provisions of the law and regulations, if any, which govern the operations of the private credit agency? What has been the general effect of such provisions on the working of the agency? To what extent does the agency operate, in practice, within the law and to what extent outside it? As regards the latter point, viz., evasion of law, can you throw any light on the prevalent modes of evasion, distinguishing between (*a*) those which, while conforming to the letter of the law, are aimed at defeating its objects and (*b*) those which are in contravention of both the letter and the spirit of the law? If possible, please describe the types of evasion in some detail. If the extent of evasion is considerable, would you attribute this to (*a*) the purpose of the law being unrealistic or (*b*) the provisions of the law being defective or (*c*) the administrative implementation of the law being faulty or (*d*) any other reason? If the administrative implementation is faulty, to what extent is this attributable to (*a*) ill-designed or inadequate machinery and (*b*) inefficient or corrupt personnel?

3. What, in your opinion, should be the future role of the private credit agency? What legislative, administrative or other steps would you recommend in pursuance of the development you envisage?

4. Have you any other comments or suggestions to make in this connexion?

IV. SAVINGS

1. In your opinion, have agriculturists generally, or certain classes among them, been able to save appreciably during the recent years, in view, especially, of the improvement in the prices fetched by agricultural commodities? Please indicate in some detail the observed facts on which your opinion is based.

2. In particular, are there overt indications of larger savings by way of larger investments in (*a*) gold or silver, (*b*) land or buildings, (*c*) Government securities, National Savings Certificates, etc., and (*d*) local business or industrial undertakings such as motor transport etc.? Has there been any tendency to invest more in the improvement of land or in other forms of agricultural development?

3. What methods would you advocate for promoting savings among the different classes of agriculturists and for mobilizing the savings for productive purposes?

V. GENERAL SITUATION OF AGRICULTURAL CREDIT

1. To what extent, if any, has the agricultural credit situation in the area to which your answer relates been affected—in the sense, for example, of credit becoming easier or scarcer, cheaper or costlier, etc.—by reason of any legislation passed during the last five or six years in respect of one or more of the following subjects: tenancy, ownership and right of alienation of land; fragmentation and consolidation; debt relief and adjustment; moneylending and interest rates; and markets and warehousing?

2. If the legislation is evaded, can you throw any light on the prevalent modes of evasion, distinguishing between (*a*) those which, while conforming to the letter of the law, are aimed at defeating its objects and (*b*) those which are in contravention of both the letter and the spirit of the law? If possible, please describe the types of evasion in some detail. If the extent of evasion is considerable, would you attribute this to (*a*) the purpose of the law being unrealistic or (*b*) the provisions of the law being defective or (*c*) the administrative implementation of the law being faulty or (*d*) any other reason? If the administrative implementation is faulty, to what extent is this attributable to (*a*) ill-designed or inadequate machinery and (*b*) inefficient or corrupt personnel?

3. What is your view regarding the level of rural indebtedness (i) before the last World War, (ii) soon after the war and (iii) in the last year or two? To what extent have (*a*) debt-relief or debt-adjustment legislation and (*b*) other factors been responsible for the changes, if any, in the level of indebtedness? Please state in some detail the data on which your opinions are based.

4. Have you any other general comments or suggestions to make?

LIST OF CORRECTIONS TO THE TEXT AS FIRST PRINTED INCORPORATED IN THIS IMPRESSION

Page 17, *lines* 30-31 *from top*

For " Only a small part of this additional cropping will be on reclaimed land." *read* " Only a small part of the increased foodgrains will, however, be from reclaimed land."

Page 18, *line* 11 *from top*

The following footnote has been added after the word ' tons ' (fourteenth word) :

" Excluding seeds. For an explanation of the terms ' annual tons ' and ' productivity ' reference may be made to the *Census of India*, 1951, *Vol. I* (*India*), *Part I-A –Report*, pp. 192-3."

Page 241, *line* 6 *from top, fourth word*

For " account " *read* " accounts "

Page 292

In the last line of the table, *for* " Grand Total .. [Rs] 72.29 " [lakhs] *read* " Grand Total .. [Rs] 73.29 " [lakhs]

Page 371, *line* 30 *from top, tenth word*

For " farm " *read* " family "

Page 374, *line* 17 *from top*

After " *panchayats* " (seventh word) *insert* " of "

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